Verizon Communications Inc.

Section 272 Biennial Agreed-Upon Procedures Report
For the Period January 3, 2003 to January 2, 2005

Volume 1

Deloitte & Touche LLP
Two World Financial Center
New York, NY 10281-1414
United States

Tel: 212-436-2000
Fax: 212-436-5000
www.deloitte.com

June 13, 2005

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
Office of the Secretary
9300 East Hampton Drive
Capitol Heights, MD 20743

RE: Section 272 Biennial Report for Verizon Communications Inc. EB Docket No. 03-200

Dear Ms. Dortch:

Pursuant to paragraph 31 (e) of the "General Standard Procedures for Biennial Audits Required Under Section 272 of the Communications Act of 1934, As Amended, for the Period January 3, 2003 through January 2, 2005" in the above referenced matter, Deloitte & Touche LLP is filing our Independent Accountants' Report on Applying Agreed-Upon Procedures with the following appendices:

- Appendix A - Results of Agreed-Upon Procedures
- Appendix B - General Standard Procedures
- Appendix C - Comments from Verizon Communications Inc.

This document will also be filed electronically through the Federal Communications Commission's Electronic Comment Filing System.

Very truly yours,

Deloitte & Touche LLP

cc: Connecticut Department of Public Utility Control
D.C. Public Service Commission
Delaware Public Service Commission
Maine Public Utilities Commission
Maryland Public Service Commission
Massachusetts Dept. of Telecom and Energy
New Hampshire Public Utilities Commission
New Jersey Board of Public Utilities
New York Public Service Commission
Pennsylvania Public Utility Commission
Rhode Island Public Utilities Commission
Vermont Public Service Board
Virginia State Corporation Commission
West Virginia Public Service Commission
Verizon Communications Inc.

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Deloitte.

Deloitte & Touche LLP
Two World Financial Center
New York, NY 10281-1414
United States

Tel: 212-436-2000
Fax: 212-436-5000
www.deloitte.com

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Management of
Verizon Communications Inc.
New York, NY

We have performed the procedures enumerated in Appendix B, which were agreed to by the management of Verizon Communications Inc. ("Verizon") and the Joint Federal/State Oversight Team (collectively, the "Specified Parties"), solely to assist these Specified Parties in evaluating Verizon's compliance with the requirements of section 272 of the Communications Act of 1934, as amended ("Section 272 Requirements") during the period from January 3, 2003 through January 2, 2005. Verizon management is responsible for Verizon's compliance with the Section 272 Requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Appendix B either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results obtained are documented in Appendix A. These procedures and the results of performing such procedures are not intended to be an interpretation of any legal or regulatory rules, regulations, or requirements.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on Verizon's compliance with the Section 272 Requirements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Specified Parties and is not intended to be and should not be used by anyone other than the Specified Parties.

Deloitte & Touche LLP

June 13, 2005

Appendix A enumerates the results of procedures performed in connection with the Bell Operating Companies ("Verizon BOC")[1] *and Incumbent Local Exchange Carriers ("ILEC")*[2] *of Verizon Communications, Inc. (collectively referred to as the "Verizon BOC/ILEC" or the "Company" or "Management"), and the section 272 affiliates*[3]*. Appendix B enumerates the Agreed-Upon Procedures to be performed.*

<u>OBJECTIVE I.</u> Determine whether the separate affiliate required under section 272 of the Act has operated independently of the Bell operating company.

1. We inquired of management whether there have been any changes in the certificate of incorporation, bylaws, and articles of incorporation of the section 272 affiliates covered in this Biennial Audit, and whether there have been any legal and/or "doing business as" (DBA) name changes since the last engagement period.

   Management indicated that amendments were made to the articles of incorporation of TELUS Communications Inc. ("TCI") and TELUS Communications (Quebec) Inc. ("TCQI").

   We obtained and inspected the articles of incorporation and related amendments for TCI and TCQI noting the amendments were made to establish a new class of non-redeemable preferred shares and a special class of redeemable subordinate class B preferred shares, respectively.

   We inquired of management whether any section 272 affiliates were established or formed since the last engagement period and management indicated the following:

   > *"By reviewing the definition of a "Verizon Section 272 Affiliate" in the 2001/2002 Verizon General Standard Procedures for Biennial Audits and the 2003/2004 Verizon General Standard Procedures for Biennial Audits, there has not been a new section 272 affiliate established or formed since the last engagement period."*

2. We obtained and inspected Verizon's corporate entities' organizational charts. We confirmed with legal representatives of the Verizon BOC/ILEC, section 272 affiliates, and Verizon Communications, the legal, reporting, and operational corporate structure of

[1] For the purposes of this document, Bell Operating Companies refers to Verizon New York, Inc.; Verizon New England, Inc.; Verizon – Washington, D.C., Inc.; Verizon – Maryland, Inc.; Verizon – Virginia, Inc.; Verizon – West Virginia, Inc.; Verizon – New Jersey, Inc.; Verizon – Pennsylvania, Inc.; Verizon – Delaware, Inc.

[2] For the purposes of this document, Incumbent Local Exchange Carrier refers to Verizon California, Inc.; Verizon Florida, Inc.; Verizon Hawaii, Inc.; Verizon Mid-States (Contel of the South, Inc.); Verizon North, Inc.; Verizon Northwest, Inc.; Verizon South, Inc.; Verizon Southwest (GTE Southwest, Inc.); Verizon West Coast, Inc.; Puerto Rico Telephone Company; The Micronesian Telecommunications Corp. In addition, for the purpose of this engagement, Verizon Advanced Data Inc. ("VADI"), and Verizon Advanced Data Inc. – Virginia ("VADI – VA") are to be treated as ILECs after the September 26, 2001 order, *Bell Atlantic/GTE Merger*, 16 FCC Rcd 16915 (2001). VADI is considered a nonregulated affiliate.

[3] For the purposes of this document, the section 272 affiliates are Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance) ("VLD"); NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions) ("VES"); Verizon Global Networks, Inc. ("GNI"); Verizon Global Solutions, Inc. ("GSI"); Verizon Select Services Inc. (formerly GTE Communications Corp.) ("VSSI"); Codetel International Communications Inc. ("CICI"); TELUS Communications Inc. ("TCI"); TELUS Communications (Quebec) Inc. ("TCQI")

the section 272 affiliates. We obtained written confirmations from the legal representatives noting that:

- VLD is owned by Verizon Communications Inc.
- VES is owned by Bell Atlantic Worldwide Services Group, Inc., which in turn is owned by NYNEX Corporation, which is owned by Verizon Communications Inc.
- GNI is owned by Verizon Communications Inc.
- VSSI is owned by GTE Corporation, which in turn is owned in part by NYNEX Corporation and by Verizon Communications Inc. NYNEX Corporation is owned by Verizon Communications Inc.
- GSI is owned by Bell Atlantic International, Inc., which in turn is owned Bell Atlantic Global Wireless, Inc., which is owned by Verizon Investment, Inc., which is owned by Verizon Communications Inc.
- CICI is owned by GTE Corporation, which in turn is owned by NYNEX Corporation and by Verizon Communications Inc. NYNEX Corporation is owned by Verizon Communications Inc.
- TCI is a Canadian corporation which is wholly owned by TELUS Corporation, a publicly traded Canadian Corporation. Until December 14, 2004, Verizon held an equity interest in TELUS Corporation of 20.6% overall (composed of 25.1% of its voting stock and 15.3% of its non-voting stock.) TCI has assumed the assets and business of TCQI and TCQI no longer provides telecommunications services. No Verizon employees serve on the Board of Directors of TCI, and TCI does not report to any Verizon entity or individual. Until December 14, 2004, two of TELUS Corporation's 12 Directors were Verizon employees.

  With the closing of the sale of Verizon's equity interest in TELUS on December 14, 2004, Verizon ceased to have any equity interest in TELUS Corporation and all Verizon employees resigned from the Board of Directors of TELUS Corporation.

3. We inquired of management to identify and document which entities performed operating, installation and maintenance ("OI&M") functions over facilities either owned by each section 272 affiliate, or leased from a third party by each section 272 affiliate for the period from January 3, 2003 to March 30, 2004. Management indicated the following:

   - GSI employees and third party contractors performed OI&M on facilities either owned or leased by GNI.
   - GNI employees, GSI employees and third party contractors performed OI&M on facilities either owned or leased by VSSI.
   - GNI employees, GSI employees and third party contractors performed OI&M on facilities either owned or leased by GSI.
   - TCI/TCQI itself or an unaffiliated contractor of TCI/TCQI provided all operation, installation, and maintenance functions on the transmission facilities and switching equipment owned by the Company (TCI/TCQI), or leased by the

Company from unaffiliated entities.

- CICI itself provides all operation, installation, and maintenance functions on the transmission facilities and switching equipment owned by the Company (CICI), or leased by the Company from unaffiliated entities.

- VLD and VES do not have any facilities nor do they perform any OI&M functions for anyone.

a.) We obtained management's definition and interpretation of operation, installation and maintenance ("OI&M") functions and management indicated the following:

> *"Verizon's management has included the following guidance in its Affiliate Transaction Policy. This guidance, which is based on para. 158 of FCC Docket 96-149, is Verizon's definition of OIM. Like the FCC's order, Verizon's instructions for compliance with this requirement rely on the common meaning of the words in the FCC's rules. Specific cases are reviewed by counsel.*
>
> *'Under the 272 regulations, the FCC prohibits Verizon's ILECs and any Verizon affiliate, other than another Section 272 affiliate, from performing operation, installation or maintenance (O,I or M) functions associated with switching or transmission facilities owned or leased by a Section 272 Affiliate. An ILEC and Section 272 Affiliate may not have joint ownership of transmission and switching facilities or the land and buildings where those facilities are located. A Section 272 Affiliate may not perform operations, installation, or maintenance functions associated with switching or transmission facilities owned or leased by the ILECs.*
>
> *After the FCC modified its rules to eliminate the OI&M rule, Verizon retained this description of the OI&M rule but stated that OI&M functions may be shared after the required changes to the cost allocation manual were made and submitted to the FCC and contracts were executed.'"*

b.) We inquired of management whether or not any of the OI&M services were being performed by the Verizon BOC/ILECs and/or other non-section 272 affiliate(s) on facilities either owned by the section 272 affiliate or leased from a third-party by the section 272 affiliate for the period prior to March 30, 2004. Management indicated the Verizon BOC/ILECs do not perform OI&M functions on facilities either owned or leased from a third-party by the section 272 affiliates.

c.) We inquired of management whether or not any of the OI&M services were being performed by the section 272 affiliate on facilities either owned by the Verizon BOC/ILECs or leased from a third-party by the Verizon BOC/ILECs for the period prior to March 30, 2004. Management indicated section 272 affiliates do not perform OI&M functions on facilities either owned or leased by the Verizon BOC/ILECs.

4. We inquired of management to identify and document which entities performed operating, installation and maintenance ("OI&M") functions over facilities either owned by each section 272 affiliate, or leased from a third party by each section 272 affiliate as of January 2, 2005. Management indicated the following:

- GNI and non-affiliate third party contractors perform OI&M on facilities either owned or leased by GNI and VSSI.
- VLD, VES, and GSI do not own or lease any facilities.
- VSSI does not have any BOC/ILEC or non-section 272 affiliate performing OI&M functions upon the switching and transmission equipment owned or leased by VSSI.
- CICI performs its own operations, installation, and maintenance functions, or contracts with unaffiliated third parties to perform some of these functions except for that as of January 2, 2005 and since June 4, 2004, which is the date of the first provision of the service, Verizon Dominicana, a non-section 272 affiliate, has been performing the following for CICI:
  - Switching translation, maintenance, and provisioning service (call server operation)
  - Web-billing collection platform service.
- As of December 14, 2004 Verizon ceased to have any equity interest in TCI/TCQI.

a.) We inquired of management and management indicated the Verizon BOC/ILECs do not perform OI&M functions on facilities either owned or leased from a third-party by the section 272 affiliates. A non-section 272 affiliate, Verizon Dominicana, provides services described above to CICI.

b.) We inquired of management and management indicated section 272 affiliates do not perform OI&M functions on facilities either owned or leased by the Verizon BOC/ILECs.

5. We inquired of management to determine whether the Verizon BOC/ILECs performed any research and development (R&D) activities on behalf of the section 272 affiliates during the period from January 3, 2003 to September 30, 2004 (the "Audit Test Period"). Management indicated that the Verizon BOC/ILECs did not perform any research and development activities on behalf of the section 272 affiliates.

6. We obtained the balance sheet and detailed fixed asset listing, including capitalized software, as of September 30, 2004 for the following section 272 affiliates:

- GNI
- GSI
- VSSI (separate balance sheets and fixed asset listings for accounting entities: CARD, GTELD, CLEC, Strategic Markets)
- VLD and VES (balance sheets are combined)

We compared the fixed asset balances in the balance sheets to the totals listed in the detailed fixed asset listings and noted the following:

- For GNI, we noted the fixed assets amount in the balance sheet was $191,777,323 more than the total amount in the detailed fixed asset listing. We inquired of management and management provided a reconciliation of the difference. The difference was attributed to construction in progress ("CIP") amounts included in the balance sheet but not maintained in the asset management system.

- For GSI, we noted the fixed assets amount in the balance sheet was $1,630,082 more than the total amount in the detailed fixed asset listing. We inquired of management and management provided a reconciliation of the difference. The difference was attributed to construction in progress ("CIP") amounts included in the balance sheet but not maintained in the asset management system.

- For VSSI-CARD and VSSI-GTELD, we noted no differences

- For VSSI-CLEC, no fixed assets were listed on balance sheet

- For VSSI-Strategic Markets, we noted the fixed assets amount in the balance sheet was $489,901 more than the total amount in the detailed fixed asset listing. We inquired of management and management provided a reconciliation of the difference. The difference was attributed to capitalized computer software amounts included in the balance sheet but not maintained in the asset management system.

- For VLD and VES, we noted the fixed assets amount in the combined balance sheet was $3,242,145 more than the total amount in the detailed fixed asset listings. We inquired of management and management provided a reconciliation of the difference. The difference was attributed to journal entry accrual amounts included in the balance sheet but not yet posted in the asset management subledger.

We reviewed the detailed fixed asset listings for each of the section 272 affiliates, except the VSSI-CLEC accounting entity for which we were not provided a fixed asset listing as the division had no fixed asset amounts on the balance sheet, to verify that the detailed listing includes a description and location of each item, date of purchase or acquisition, price paid and recorded, and from what BOC/ILEC or affiliate purchased or transferred (if purchased from a nonaffiliate, then indicate "Nonaffiliate"). We noted the following:

- For GNI of 54,783 asset items, we noted 201 assets with a total net book value of $5,318,074 did not have a location identifier. Also, 241 assets with a total net book value $264,489 did not have an asset description.

- For GSI of 688 asset items, we noted 212 assets with a total net book value of $760,761 did not have a location identifier.

GNI, GSI, VLD, VSSI-CARD and VSSI-Strategic Markets each acquired assets during the Audit Test Period. VES, VSSI-GTELD and VSSI-CLEC did not acquire any assets during this period. From the detailed fixed asset listings for GNI, GSI, VLD, VSSI-CARD and VSSI-Strategic Markets, we selected a statistically valid random sample of 95 transmission and switching facilities, including capitalized software, and the land and buildings where those facilities are located, out of a population of 10,327 items that were added during the Audit Test Period. We requested the title and/or other documents, which reveal ownership, for the sample selected. Management provided invoices and where applicable, the supporting reconciliations to the amount stated on the detailed fixed asset listings, as support for ownership. We noted the following:

- For 86 out of 95 items selected, we inspected the invoices and noted that the assets were billed to the appropriate section 272 affiliate. We also noted the invoice cost agreed to the detailed fixed asset cost amount.

- For the remaining 9 out of 95 items selected, we inspected the invoices and noted that the assets were billed to the appropriate section 272 affiliates. For each of these items, management provided reconciliations from the documents supporting ownership to the amount stated on the detailed fixed asset listings.

- For all 95 sample items we noted no items jointly owned by the Verizon BOC/ILECs and the section 272 affiliate.

<u>OBJECTIVE II</u>. Determine whether the separate affiliate required under section 272 of the Act has maintained books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell operating company.

1. We obtained the separate general ledgers maintained for VLD, VES, GNI, VSSI and GSI as of the end of the Audit Test Period and matched the title on the general ledgers with the names on the certificates of incorporation and/or related amendments and noted no differences.

   We reviewed the general ledgers of VLD, VES, GNI, VSSI and GSI and did not identify special codes which link the above section 272 affiliates' general ledgers to the general ledgers of the Verizon BOC/ILECs.

2. We obtained the financial statements (income statement and balance sheet) as of the end of the Audit Test Period for the following section 272 affiliates:

   - GNI
   - GSI
   - VSSI (separate income statements and balance sheets for accounting entities: CARD, GTELD, CLEC, Strategic Markets)
   - VLD and VES (financial statements are combined)

3. We obtained a list of lease agreements as of September 30, 2004 for GNI, GSI, VSSI, VLD and VES under which the section 272 affiliate was either the lessor or lessee. In all cases, the section 272 affiliates were the lessee. We identified 20 leases where the annual obligation listed for the lease agreement was $500,000 or more. We selected all 20 leases for testing and obtained a copy of the lease agreement, and noted the terms and conditions.

   We obtained a lease accounting assessment prepared by management indicating the accounting treatment for each sampled lease and noted that each lease selected for testing was accounted for in accordance with GAAP.

   We also obtained and inspected the Company's lease accounting policies and noted such policies were consistent with GAAP.

<u>OBJECTIVE III</u>. Determine whether the separate affiliate required under section 272 of the Act has officers, directors, and employees that are separate from those of the Bell operating company.

1. We inquired of management and management indicated that each of the section 272 affiliates and each of the Verizon BOC/ILECs maintain separate boards of directors, separate officers and separate employees.

   We obtained a list and formal confirmation from the Corporate Secretary's Office of names of directors and officers for the Verizon BOC/ILECs and the section 272 affiliates, including the dates of service for each Board member and officer for the Engagement Period. We compared the list of names of directors and officers of each Verizon BOC/LEC with the list of names of directors and officers of each section 272 affiliate. We noted that there were no directors or officers who served simultaneously as a director and/or officer of any Verizon BOC/ILEC and any section 272 affiliate during the Engagement Period.

2. We obtained a list of names and social security numbers of all employees of the section 272 affiliates and of the Verizon BOC/ILECs for the Engagement Period. We designed and executed a program which compared the names and social security numbers of the employees on the section 272 affiliates' lists to the names and social security numbers of the employees on the Verizon BOC/ILEC's lists. We noted that there were no names appearing on both lists simultaneously.

<u>OBJECTIVE IV</u>. Determine that the separate affiliate required under section 272 of the Act has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell operating company.

1. We requested from management copies of each section 272 affiliates' debt agreements/instruments and credit arrangements with lenders and major suppliers of goods and services. Major suppliers are those having $500,000 or more in annual sales as stated in the agreement. We obtained copies of the section 272 affiliates' debt agreements/instruments and noted that some of the debt agreements/instruments in the form of promissory notes were with a related party, Verizon Global Funding. We did not note any language indicating guarantees of recourse to the Verizon BOC/ILEC's assets, either directly or indirectly through another affiliate.

2. We obtained the lease agreements where the annual obligation is $500,000 or more used in Objective II, Procedure 3. We reviewed these lease agreements and did not note any language in the agreements indicating recourse to the Verizon BOC/ILEC's assets, either directly or indirectly through another affiliate.

3. We mailed out and requested positive confirmations for 19 of the 20 debt instruments, leases, and credit arrangements maintained by each section 272 affiliate in excess of $500,000 of annual obligations identified in Objective II Procedure 3 and for a judgmental sample of 16 debt instruments, leases and credit arrangements that are less than $500,000 in annual obligations to loan institutions, major suppliers and lessors to verify the lack of recourse to Verizon BOC/ILEC's assets. One of the leases identified in Objective II Procedure 3 represented a sublease arrangement to a master lease included in the confirmation sample and accordingly a confirmation was not sent for this item. We sent 17 confirmations confirming non-recourse for the 35 selected sample items as some confirmations covered more than one arrangement. Responses were received for 6 of the 17 confirmations representing 24 of the sample items. All the positive confirmations returned from loan institutions, major suppliers and lessors attested to the lack of recourse to the Verizon BOC/ILEC's assets.

<u>OBJECTIVE V</u>. Determine whether the separate affiliate required under section 272 of the Act has conducted all transactions with the Bell operating company on an arm's length basis with the transactions reduced to writing and available for public inspection.

<u>OBJECTIVE VI</u>. Determine whether or not the Bell operating company has accounted for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

1. We requested, obtained and included in our working papers a written narrative from management describing the procedures used by the Verizon BOC& ILEC to identify, track, respond, and take corrective action to competitor’s complaints with respect to alleged violations of the section 272 requirements.

   We requested of management to provide (1) a list of all FCC formal complaints, as defined in 47 CFR 1.720; FCC informal complaints, as defined in 47 CFR 1.716 and any written complaints made to a state regulatory commission from competitors involving alleged noncompliance with section 272 for the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the engagement period and (2) a list of outstanding complaints from the prior engagement period. Management indicated that there have been no FCC formal and informal complaints and no written complaints made to a state regulatory commission from competitors alleging noncompliance with section 272 relating to the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the engagement period. Management also indicated there were no complaints open as of January 2, 2003 alleging noncompliance with section 272 relating to the provision or procurement of goods, services, facilities, and information, or in the establishment of standards.

2. We requested and obtained from the Verizon BOC/ILECs and each section 272 affiliate current written procedures for transactions with affiliates. We compared these procedures with the FCC rules and regulations indicated as Objective V & VI “standards" in the General Standards Procedures for Biennial Audits Required Under Section 272 of the Communications Act of 1934, as amended. We noted the Company's written procedures included the FCC Rules and Regulations indicated as standards above, and noted no differences.

3. We requested and obtained a narrative describing how the Verizon BOC/ILECs and each section 272 affiliate disseminate the FCC rules and regulations and raise awareness among employees for compliance with the affiliate transaction rules. We reviewed the narrative provided by management and noted the type and frequency of training, literature distributed, company's policy, and nature of the supervision received by employees responsible for affiliate transactions. The following represents the narrative provided:

   “All Section 272 affiliate employees are required to attend Section 272 compliance training. The Affiliate Transaction Compliance Office conducts training sessions by conference call or face-to-face sessions as follows:

   - *VLD - As needed as determined by management.*
   - *VES - As needed as determined by management.*

- *GNI - New hires are trained as part of their orientation and refresher training is given to existing employees annually.*
- *VSSI - New hires are trained as part of their orientation and refresher training is given to existing employees as needed as determined by management.*
- *GSI – All employees are trained annually.*
- *TELUS/TELUS (Quebec) –As needed as determined by management.*
- *CICI –As needed as determined by management.*
- *BOC/ILECs - Training is part of new employee orientation for the BOC/ILEC. In addition, all other affiliates (Non-272 affiliates) are trained upon request of a functional organization.*

The Section 272 affiliate transaction policy training includes: an overview of the Telecommunications Act of 1996; identification of the Section 272 affiliates; the consequences of non-compliance with the rules; the structural, accounting and nondiscriminatory compliance requirements; information sharing; and joint marketing.

Employees are provided with written documentation on the Affiliate Transactions Policy, global e-mails are sent to disseminate 272 regulatory information and target letters are sent to specific organizations. To support this communications effort, the Senior VP-Regulatory Compliance sent a letter to the "Top 300" senior managers on September 20, 2004 emphasizing the importance of complying with Section 272 obligations. In these communications the senior managers are asked to assure their organizations are aware of, and follow, the rules. Summaries of the Section 272 rules or links to the internal corporate affiliate web sites were included in the correspondence. Further, letters were sent to Group Presidents and equivalent VPs in April 21, 2003 from the Senior Vice President-Regulatory Compliance, which focused on Section 272 obligations as it coincides with organizational and functional changes. In addition, on January 12, 2004, letters were sent to Codetel International Communications Inc., TELUS Communications Inc., TELUS Communications (Quebec) Inc., and Puerto Rico Telephone Company from the Group Senior Vice President – International Operations focusing on the obligations under Section 272 and the FCC affiliate transaction rules.

The importance of adhering to all affiliate regulations, including Section 272, was emphasized through corporate-wide emails sent to all employees on July 31,2003 and July 23, 2004. In order to further explain the rules, a website address was provided to locate Verizon's Affiliate Transaction Policy.

Training efforts began shortly after the passage of the Telecommunications Act on Section 272 and continued through 2004. During 2003 and 2004, just under 2,500 employees attended training sessions sponsored by the affiliate organizations.

The Affiliate Transactions Policy is also located on the Company's intranet website. The Affiliate Interest Compliance Office Hotline is available to answer questions employees may have on the subject.

> *There is an Affiliate Interest Compliance Office Hotline, and each business unit is assigned a specific Compliance Officer who is required to answer any questions employees may have on the subject. In addition, each business unit has an attorney who can be reached to answer questions relative to transactions with Section 272 affiliates."*

We conducted interviews with employees responsible for the development and recording of affiliate transactions costs in the books of record of the carrier. The employees interviewed had the following job titles: Senior Staff Consultant – Retail Markets, Senior Staff Consultant – Product Management/Product Development, National Account Manager – Billing Services, Manager – Accounting, Manager – Financial Planning & Analysis, Specialist – Billing, Senior Staff Consultant – Sales Support, Director – Real Estate Operations. Each of these individuals also completed a questionnaire surrounding their awareness of the FCC rules and regulations. Through the employees interviewed and questionnaires completed by employees, we noted that the employees demonstrated knowledge of the FCC rules and regulations.

4. a.) We obtained and examined a listing of all written agreements for services and for interLATA and exchange access facilities between the Verizon BOC/ILEC and each section 272 affiliate which were in effect for during the Audit Test Period. There were 509 total agreements and amendments examined. Of those, there were 388 which were still in effect as of the end of the Audit Test Period. Attachment A-1 lists all agreements that terminated during the Audit Test Period and the termination date. Attachment A-1 also lists the 64 agreements which terminated prematurely, and the reason for termination provided by management.

We inquired of management and management provided instances where services were provided between the Verizon BOC/ILEC and section 272 affiliate at some point during the period January 3, 2003 to January 2, 2005 without a written agreement between the parties. The following represents management's response:

> *"The following services were provided during the engagement period before written agreements were executed.*

- *Amendment No. 45 to Sales and Marketing Agreement [East] and Amendment No. 10 to the Sales and Marketing Agreement [West] added conference connection service as a telephone company provided service to VES and VLD. Only one conference bridge was sold [East] before the amendment was executed. Subsequent sales were halted until the agreement was executed. Service was effective August 4, 2004. An agreement was executed December 20, 2004.*

- *Amendment No. 2 to the Commission Agreement for the Provisioning of Automated and Live Operator Services added per call compensation for payphones. VSSI has been paying the telephone companies per call compensation per the FCC requirements, however the service was inadvertently omitted a written agreement. Service was effective May 2, 2002. The amendment was executed May 3, 2004.*

- *Amendment No. 16 to the General Services Agreement added terms to cover long distance account settlement services. The telephone companies provided these services to VES and VLD. Service was effective June 30, 2000. The amendment was executed February 28, 2005.*

- *Miscellaneous Administrative Functions provided at some point during engagement period without a written agreements:*

    - *Agreement for 272 web posting teams to copy ILEC-272 contracts onto a CD ROM and send to the public inspection offices to improve regulatory compliance accuracy. Service was effective March 11, 2003.*

    - *Agreement covering support by one director to negotiate a contract with a third party provider of satellite video services. Service was effective September 15, 2003.*

    - *Agreements to cover a small number of VSSI employees that were housed in ILEC space in WA, CA and FL facilities. Service was effective June 30, 2000, October 28, 2002 and June 29, 2001, for WA, CA and FL, respectively.*

    - *A "mentoring" agreement covering two managers at VGNI that spent a total of 12 hours as mentors [ad hoc personal development coaches] for ILEC employees. [Note: the employees worked for a non-regulated affiliate when the arrangement was established.] Service was effective May 1, 2003.*

    - *A service agreement, plus two amendments to cover Intranet access services available to certain VSSI, VGNI, VES and VLD employees Service was effective June 30, 2000 for the Service Agreement and Amendment 1. Amendment 2 was effective August 1, 2002.*

- *An agreement to cover limited services with the Telus Corporation was executed retroactively in January 2005. Verizon's share in Telus was sold on December 14, 2004.*

    - *Amendment No. 1 to Definitive Agmt. For Directory Assistance and SOW for U.S. Directory Assistance Services covered the ILECs with Telus Communications Inc. Service was effective August 5, 2004. A contract was executed January 17, 2005.*

- *In addition, the items below disclosed in the prior audit were provided for some period in 2003/2004 without a contract. These were remediated prior to the issuance of the last audit report and were considered when Verizon reached the Consent Decree with the FCC in 2004.*

    - *Amendment No. 2 to the Billing Services Agreement, provided to VES and VLD, added Fraud Management Service. Service was effective April 1, 2002.*

- *Amendment No. 4 to the Billing Services Agreement, provided to VES and VLD, added Message Ready Service for CIC Codes 06224 & 00015; Adds Call Recording Service for CIC Code 05483. Service was effective April 1, 2002.*

- *Agreement For Operational Readiness Testing (ORT) Services, provided to VES and VLD sets the terms, conditions and guidelines for the provision of testing services VLD will provide to the ILEC (Service was effective November 22, 2002). Statements of Work cover ORT planning, test case development, preparation and execution of the testing and provision of various reports associated with such testing related to Mass Market rollouts (Service was effective December 12, 2002). Includes Rate Table, and Statement of Work (SOW) No. 2 covers Enterprise Advance User Acceptance Testing (UAT) SOW for testing services that VLD will provide to LEC including planning, test case development, preparation and execution of testing and provision of various reports associated with UAT (Service was effective November22, 2002).*

- *As part of post-9/11 reconstruction activities, VGNI provisioned Frame Relay circuits for Verizon NY."* *Service was effective September 14, 2001.*

b.) We obtained and examined a listing of all written agreements, amendments and addenda for services and for interLATA and exchange access facilities between the Verizon BOC/ILEC and each section 272 affiliate that became effective during the Audit Test Period. Forty-eight statistically valid random selections were made from a population of 240 total written agreements. Copies of each selected agreement, amendment, and addenda were obtained and are included in the workpapers. We were subsequently notified by Verizon that five additional amendments became effective during the Audit Test Period and were not included in the population provided. As an alternative to reselecting the sample items, we tested three of the additional amendments individually against the procedure and obtained copy of the written amendment and included in the workpapers.

5. Using the sample of the agreements, amendments and addenda obtained in Procedure 4b, we viewed each company's web site on the internet and compared the prices and terms and conditions of services and assets shown on this site to the agreements provided in Procedure 4b above.

For each individual web posting comparison for accuracy, we completed "Form 1 – Assessing Individual Web Postings" (columns D and E) as provided in the General Standard Procedures. We noted no instances where an agreement contains an item(s) that does not agree with the corresponding item on the internet. Taking those instance(s), or lack thereof, where an agreement contains an item(s) that does not agree with the corresponding item on the internet, we developed the error rate as a percentage by utilizing Form 1 (columns D and E) and summarized the results on "Form 2 – Summary of Web Posting Completeness and Accuracy Results" (columns B and C) at Attachment A-2 to this report.

Using the same sample as above, we obtained a list of the principal places of business (BOC headquarters) where these agreements are made available for public inspection. Using a judgmental sample of locations agreed to by the Joint Oversight Team, we visited the following locations to determine whether the same information is made available for public inspection at the principal place of business (BOC headquarters) of the Verizon BOC/ILECs:

- Verizon Virginia, Inc. - Richmond, VA (3 agreements inspected)
- Verizon New Jersey, Inc. - Newark, NJ (16 agreements inspected)
- Verizon New England, Inc. - Boston, MA (8 agreements inspected)
- Verizon California, Inc. - Thousand Oaks, CA (10 agreements inspected)
- Verizon North, Inc. - Westfield, IN (11 agreements inspected)

We noted no instances where an item in the sampled agreement did not agree with the corresponding item in the agreement at the public inspection site.

For each of the 51 sampled agreements, amendments and addenda obtained in Procedure 4b, we documented in the working papers the dates when the sample agreements were signed and/or the services were first rendered (whichever took place first) and the dates of posting on the internet. Of the 51 sampled items, 13 instances were noted where posting took place after ten days of signing of agreement or provision of service (whichever took place first), we also inquired of management as to the reasons for the late postings. Management indicated the following:

- *The following late postings were due to administrative errors. Three of the four late postings in this group were associated with international Section 272 affiliates (CICI, GSI and TCI). Three were effective in 2003 and only one in 2004.*

Section 272 Affiliate	*Name of Agreement*	*Post Date*	*Effective Date*	*Execution Date*
CICI	*Memorandum of Understanding**	*10/28/2003*	*9/17/2003*	*9/17/2003*
GSI	*Wholesale Marketing & Sales Amendment #3***	*1/9/2003*	*12/10/2003*	*12/10/2003*
VSSI	*Amendment #3 to the Billing Service Agreement****	*7/31/2003*	*5/7/2003*	*5/7/2003*
TCI	*Amendment #1 to Directory Assistance*	*2/18/2005*	*8/5/2004*	*1/17/2005*

**Tariff telephone service provided by Puerto Rico Tel to CICI. There was confusion regarding some missing information about the posting.*

*** After execution, contract was misplaced and upon recovery it was immediately posted.*

****The amendment updated the list of Verizon telephone companies and certain state references in the agreement and had not effect on terms and conditions. Confusion re: posting resulted from personnel changes. New personnel are now aware of the requirement, and a process has been put into place to notify posting personnel of agreement execution.*

- *Circumstances associated with the following postings are described in Verizon's response to "services without a contract" included in the audit report under Objective V/VI, Procedure 4. Four of the five agreements were posted within the 10 days once the agreement was executed.*

Section 272 Affiliate	*Name of Agreement*	*Post Date*	*Effective Date*	*Execution Date*
GNI	*Service Agreement E-Web+**	*8/25/2004*	*6/30/2000*	*8/17/2004*
VES	*Services Agreement E-Web+**	*8/20/2004*	*6/30/2000*	*8/17/2004*
VES	*MOU Reconciliation Billing Agreement*	*11/3/2004*	*7/1/2003*	*9/9/2003*
VLD	*Amendment #45 to Sales and Marketing Agreement+***	*12/15/2004*	*8/4/2004*	*12/20/2004*
VES	*Amendment #10 to Sales and Marketing Agreement+***	*12/15/2004*	*8/4/2004*	*12/20/2004*

+ These agreements were posted within 10 days once the contract or amendment was executed.

** The sample includes two instances of the same agreement provided to two of our Section 272 affiliates.*

*** These are amendments on the same issue, written against different base contracts. One covers the Verizon East [BOCs] and one the Verizon West [ILECs] telephone companies.*

- *The following postings were posted within the 10 days once the amendment was executed. In each case the service was already available through a posting on the Section 272 web site. All occurred in 2003. Per the Consent Decree various remedial steps were taken to improve processes in mid 2004.*

Section 272 Affiliate	*Name of Agreement*	*Post Date*	*Effective Date*	*Execution Date*
VLD	*Amendment #4 to Billing Service Agreement**	*6/5/2003*	*4/1/2002*	*6/17/2003*
VLD	*Amendment #40 to Marketing and Sales Agreement***	*6/23/2003*	*1/1/2003*	*6/23/2003*
VLD	*Amendment #7 to Sales and Marketing Agreement***	*12/4/2003*	*1/1/2003*	*12/2/2003*
GNI	*Amendment #3 to 10 County Center, Greensburgh NY****	*8/15/2003*	*7/31/2003*	*8/11/2003*

** Added Message Ready Service for two additional Carrier Identification Codes ("CIC") and Call Recording Service for one CIC. This was considered in the 2001/ 2002 audit and associated Consent Decree Negotiations.*

*** Rate updates only to service.*

**** Renewal of an existing agreement already on the website.*

We requested, obtained from management and documented in the working papers the procedures the company has in place for posting these transactions on a timely basis.

For each individual web posting comparison for completeness, we completed "Form 1 – Assessing Individual Web Postings" (columns G and H) as provided in the General Standard Procedures. Taking those instance(s) where the internet did not contain sufficient details, we developed the error rate as a percentage by utilizing Form 1 (columns G and H) and summarized the results on "Form 2 – Summary of Web Posting Completeness and Accuracy Results" (columns D and E) at Attachment A-2 to this report. We noted no instances where the internet did not contain sufficient details.

We obtained copies of these public postings and included such in the working papers.

6. We obtained a listing and amounts of all nontariffed services rendered by month by Verizon BOC/ILECs to each section 272 affiliate during the Audit Test Period. From the listing, we determined which of these services are made available to the section 272 affiliates and not made available to third parties, and which services are made available to both the section 272 affiliates and to third parties.

a.) From the services not made available to third parties, we selected a statistically valid sample of 95 items. For each transaction in the sample, we requested the Fully Distributed Cost ("FDC") and the Fair Market Value ("FMV") unit charges for the services, copies of the Verizon BOC/ILEC invoice and journal entries for the Verizon BOC/ILEC. To determine whether these transactions were recorded in the books of the Verizon BOC/ILECs in accordance with part 32.27 of the Commission's rules, we compared unit charges to FDC or FMV as appropriate. We noted the following:

- For 93 of the 95 transactions, we compared the unit charges in the invoice to FDC and FMV, and noted for 92 transactions the unit charges were priced at the higher of either FDC or FMV. We noted one transaction where the unit charge was the lower of FDC or FMV.

- For 2 of the 95 transactions, management could not provide support for FMV for comparison to FDC. Both of these transactions represented services whose annual aggregate value of service is less than $500,000. We noted none of the 95 transactions were dated after September 27, 2004.

- Based on the documentation provided for the sample transactions (invoices and journal entries), we noted no chain transactions.

- No instances were noted where differences existed between the amount recorded in Verizon BOC/ILEC financial records and the amount charged in accordance with the affiliate transaction rules.

For each of the sample transactions, we obtained the Journal Voucher and Accounts Payable screen prints in order to compare the amount recorded in the section 272 affiliate books for those services and the amount the section 272 affiliate paid for the same services. We noted no differences.

b.) From the services made available to both the section 272 affiliates and to third parties, we selected a statistically valid sample of 95 items. For each transaction, we compared the amounts recorded for the sampled services in the books of the Verizon BOC/ILEC with the amounts recorded for the sampled services in the books of the section 272 affiliate, and noted the following differences:

Service	Provider	Month/ Year	section 272 Affiliate	Amount per BOC/ILEC Books	Amount per section 272 Affiliate Books	Difference
General Business	Connecticut	February 2003	VLD	$ 114.45	$ 114.00	$ 0.45
General Business	Maine	June 2003	VLD	1,446.59	1,447.00	(0.41)
Payphone	New York	December 2003	VSSI	276,588.34	276,588.33	0.01
Payphone	Maine	May 2004	VSSI	38,218.12	38,218.11	0.01
Payphone	Washington, D.C.	July 2004	VSSI	12,617.09	12,617.10	(0.01)
Payphone	West Virginia	April 2004	VSSI	16,656.00	16,655.54	0.46

We inquired of management regarding the above differences and management indicated such were due to rounding.

<u>We compared the amount recorded in Verizon BOC/ILEC books to the amount paid by the section 272 affiliate and noted the following:</u>

- For 50 of the 95 selections, the amounts recorded in the Verizon BOC/ILEC books were the same as the amount the section 272 affiliate paid.

- For 39 of the 95 selections, the service provided was a payphone related service which is not paid through check or wire transfer payment methods. For payphone related services, the Verizon BOC/ILEC does not issue invoices to section 272 affiliates. Alternatively, the section 272 affiliate tracks the revenue generated, calculates the commission payment due to the Verizon BOC/ILEC based on the affiliate agreements, remits payment and issues a statement detailing the payment on a monthly basis. We obtained the worksheets showing the calculation made by section 272 affiliates and agreed such amounts to the amounts recorded in the Verizon BOC/ILEC books.

- For 6 of the 95 selections, payment was not yet made.

We also determined if the transaction was billed to the section 272 affiliate at rates in an interconnection agreement under section 252(e) or at the rates in a statement of generally available terms under section 252(f), or at prevailing price, as provided in part 32.27 (c) and (d) of the Commission's rules. We compared a particular type of service within an invoice with the price available in the publicly filed agreements and noted the following:

- For 47 of the 95 selections, the unit charge for the service selected agreed to the respective publicly filed agreement.

- For 39 of the 95 selections, the service provided was a payphone related service which is not invoiced to the section 272 affiliates. We obtained the worksheets showing the calculation made by section 272 affiliates and agreed rates to the respective section 272 affiliate agreements.

- For 2 of the 95 selections, no specific rates for the service were provided in the publicly filed agreements.

- For 3 of the 95 selections, the publicly filed agreement indicated the rate as "to be determined."

- For 3 of the 95 selections, the invoice did not provide rate detail.

- For 1 of the 95 selections, we noted a difference where the rates charged for certain services provided in California were provided at a 12% discount from the rates included in the publicly filed agreements.

7. Using the listing obtained in Procedure 6 of services rendered by month by Verizon BOC/ILECs to each section 272 affiliate during the Audit Test Period, we determined if any of the services rendered include operations, maintenance, or installation (OI&M) functions.

   a.) We examined the listing and inquired from management and noted that none of the services provided in response to Procedure 6 is an operations, maintenance, or installation (OI&M) service.

   b.) As none of the services provided in response to Procedure 6 is an operations, maintenance, or installation (OI&M) service, there are no matters to disclose for this procedure.

8. We requested and obtained a listing and amounts of all services rendered by month to the Verizon BOC/ILEC by each section 272 affiliate during the Audit Test Period. We selected a statistically valid sample of 95 selections and compared the unit charges to tariff rates, PMP, FDC, or FMV, as appropriate, to determine whether these services were recorded in the books of the Verizon BOC/ILEC in accordance with the affiliate transactions rules. We noted the following:

- For 85 of the 95 selections, the unit charge for the service selected was charged in accordance with affiliate transaction rules.

- For 10 of the 95 selections, item selected for testing represented a credit amount.

<u>Comparison of Amount Recorded in Verizon BOC/ILEC Books to Amount Paid</u>

- For 63 of the 95 selections, the amounts recorded in the Verizon BOC/ILEC books were the same as the amount the Verizon BOC/ILECs paid.

- For 11 of the 95 selections, payment was not yet made.

- For 10 of the 95 selections, item selected for testing represented a credit amount.

- For 6 of the 95 selections, invoices were rescinded due to services billed in error.

- For 5 of the 95 selections, the payment documentation could not be located.

9. Using the balance sheet and detailed fixed asset listing, including capitalized software, as of the end of the Audit Test Period for each section 272 affiliate obtained in Objective I, Procedure 6, we noted the following:

   a.) No items were purchased or transferred from the Verizon BOC/ILECs to the section 272 affiliates during the Audit Test Period.

   b.) We noted 1,480 items were transferred from GSI to GNI on September 30, 2004. We noted that the GNI detailed fixed asset listings indicated the assets were transferred from GSI. We inquired of management and management indicated none of the assets were originally transferred to GSI from any Verizon BOC/ILEC.

   c.) No items were purchased or transferred from the Verizon BOC/ILECs, either directly or through another affiliate, during the Audit Test Period.

10. We inquired and management indicated that GSI, GNI, VLD, VES, VSSI, CICI, TCI and TCQI did not sell or transfer any assets to a Verizon BOC/ILEC during the Audit Test Period.

11. We requested and obtained a list of all invoices by month for the engagement period where assets and/or services charged to a section 272 affiliate are priced pursuant to section 252(e) or statements of generally available terms pursuant to section 252(f). We selected a statistical sample of 36 invoices from the population of 177 invoices. For each invoice selected, we compared the price the Verizon BOC/ILEC charged the section 272 affiliate to the stated price in the publicly-filed agreements or statements.

    For 20 of the sampled invoices, we noted the price the Verizon BOC/ILEC charged the section 272 affiliate equaled the stated price in the publicly-filed agreements or statements. We noted 16 of the sampled invoices include the following for services provided in California which were priced at a 12% discount compared to the prices stated in the publicly filed agreement or statements:

- DS1 Clear Channel
    - Unit rate on the invoices - $22.00. Retail rate as per agreements - $25.00
- DS1 Special Access Line
    - Unit rate on the invoices - $213.84. Retail rate as per agreements - $243.00
- DS1 Special Access Line
    - Unit rate on the invoices - $237.60. Retail rate as per agreements - $270.00
- DS1 Special Transport Mile
    - Unit rate on the invoices - $28.4944. Retail rate as per agreements - $32.38
- DS1 Special Transport Term
    - Unit rate on the invoices - $44.00. Retail rate as per agreements - $50.00

Management indicated the 12% discount should not have been applied to DS1 services sold under this resale arrangement in California. Verizon actually applied the discount to all customers purchasing under these arrangements.

12. We inquired of management and management indicated that no part of the Verizon BOC/ILECs' Official Services network has been transferred or sold to a section 272 affiliate since January 3, 2003.

<u>OBJECTIVE VII</u>. Determine whether or not the Bell operating company has discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards.

1. We obtained the Verizon BOC/ILECs' written procurement procedures, practices, and policies. We reviewed these policies for any stated purchasing preferences, and found Verizon deviated from their non-preferential sourcing policies in emergency situations and for requests for service that required a highly specialized or specific goods or services. We noted the Verizon BOC/ILECs disseminate requests for proposals (RFPs) to affiliates and third parties through eSource per their policies and procedures.

   The following represents a summary of the bidding and selection processes of the Verizon BOC/ILECs based on written procurement procedures, practices, and policies obtained from management:

   > Suppliers of products and services are selected without discrimination based upon the best combination of total cost, quality, and service when matched to the requirements of Verizon. All sourcing for Verizon and affiliates goes through Verizon Corporate Sourcing which will utilize Cross Functional Teams (CFTs), a Sourcing Process Leader (SPLs), Contract Administrator (CAs), and all policies and procedures specified in the Verizon Sourcing Policy and Procedures. CFTs are made up of individuals representing the user organizations impacted by the product or service to be procured. CFT's are utilized as a key control and responsibilities of CFT members are developed and listed in the Responsibility Matrix. SPLs have ultimate responsibility for leading the strategic sourcing process and for ensuring the overall integrity of the process. CAs are part of the Strategic Sourcing Team.
   >
   > CAs and/or SPLs are responsible for contract administration, which includes contract formation and management from the development through the termination of the contract. Requirements are provided in the Verizon Affiliate Transaction policy for all procurement services provided by Verizon Sourcing to Verizon Affiliates. Proper approvals, authorizations, and policies have to be addressed and obtained before procuring products and services related to network, safety & environmental control, ergonomic, hazardous/environmentally sensitive materials, and computer products and materials. Verizon Corporate Sourcing is responsible for developing and maintaining information about suppliers who may potentially be eligible to receive a Request for Proposal (RFP) or Request for Quote (RFQ). CFTs are responsible for selecting suppliers to receive an RFP/RFQ and awarding business to suppliers. The SPL is responsible for developing a preliminary sourcing strategy prior to forming CFT, and after it is reviewed the SPL and CFT are responsible for developing the RFP based on the Scope of Work/Generic Requirements.
   >
   > All suppliers invited to quote must receive the same information with the same set of directives. Each RFP must be sent to a minimum of three suppliers. The suppliers selected must be made in a fair, consistent, and non-discriminatory manner, which the CFT must disclose along with a rationale for their inclusion. E-source is the vehicle designated for the issuance of Request of Information (RFI), RFP and RFQ. The CFT must review the responses to ensure that there is a competitive pool of suppliers available for negotiations, while the CFT leader will facilitate the discussions that result in the determination of a short list of suppliers who meet Verizon's requirements. The team leader must also ensure that data used to eliminate

suppliers is comparable and consistent from supplier to supplier. Any additional requests made to suppliers must be distributed to all suppliers so that they have an opportunity to any additional information or advantage given. When the short list of suppliers is complete and the negotiation strategy is formed, the negotiation team must provide the same opportunities for all suppliers through the negotiation process. CFT must come to a consensus about awarding business to a supplier and all analysis must be documented for review. If a consensus can not be reached, the issue must be escalated to higher management.

After SPL has verified adherence to all applicable policies he/she must draft a Memo of Understanding (an internal document that outlines and summarizes the terms and conditions negotiated with the vendor) and forward it to the Contract Administrator. If the user organization needs the product/service immediately, a letter of intent can be drafted in the interim. SPL must ensure suppliers have adequate insurance, and are financially stable. Verizon's policies further monitor end users adherence to sourcing policies.

If a product or service is procured in an emergency situation, which is defined as "those network/computer/environmental/safety situations that are service affecting to the external customers of Verizon or where the safety and well being of Company employees or the public could be adversely impacted," then the user organization must complete a memorandum containing details of the emergency and procurement information and submit it to Verizon Corporate Sourcing for approval if Verizon Corporate Sourcing had to be by passed because of the emergency situation.

In other specific situations when the product is technical in nature or designed to exact specifications set by the customer, a supplier is designated as the sole source for the product. The sole source must be utilized unless there is a business reason for not utilizing the supplier. If the identified supplier cannot be utilized, the customer must be advised and participate where appropriate in the identification process for an alternate supplier.

In instances where the internal customer is time constrained and requires a product/service over $25,000 Verizon Corporate Sourcing would implement the Enhanced Speed Model which addressed the needs of the user while preserving integrity and required controls. The Enhanced Speed Model incorporates all major functions of the sourcing policies and procedures, without using CFT or the negotiating team, and the RFP may be sent to a minimum of two suppliers. Finally, the sourcing process should comply with all State regulations.

2. We requested from management the Verizon BOC's procurement awards to each section 272 affiliate during the Audit Test Period. We inspected bids submitted by each section 272 affiliate and third parties, noted terms, and discussed with Verizon BOC representatives how selections were made. We compared this practice with the Verizon BOC written procurement procedures and noted no differences. The following procurement awards were provided :

- Competitive bid - Agreement between VSSI and Telesector Resources Group a.k.a. Verizon Service Group for Telecommunication Services. Verizon received five responses to the Request for Proposal ("RFP"). Only two vendors (VSSI and an unaffiliated vendor) met the RFP requirements and responded with a required Voice Flat Rate Quote. VSSI was the lowest bidder.

- Competitive bid - Agreement between TCI and Telesector Resources Group a.k.a. Verizon Service Group for 611 Contingency Planning. Verizon received eight responses to the RFP. Seven suppliers delivered face-to-face presentations and four suppliers were selected for revised proposals. The three lowest bidders were chosen to provide service (TCI and two unaffiliated entities).

- Emergency bid - Agreement between TCI and Telesector Resource Group a.k.a. Verizon Group for Directory Assistance Contingency Planning. This was a closed bid process because the existing contract was about to expire and TCI was the service provider capable of providing operator assistance for anticipated volume of calls.

3. We obtained a list of all goods (including software), services, facilities, and customer network services information, excluding CPNI as defined in section 222(f)(1) of the Act, and exchange access services and facilities inspected in Objective IX, made available to each section 272 affiliate by the Verizon BOC/ILECs. From a statistically valid sample of 25 items from this list, we inquired and obtained copies of the media used by the Verizon BOC/ILECs to inform unaffiliated entities of the availability of the same goods, services, facilities, and information at the same price, and on the same terms and conditions and found that all services and agreements to provide services were made available to unaffiliated entities through use of the Verizon website.

4. We requested and obtained a list from the Verizon BOCs of all unaffiliated entities who have purchased the same goods, as the section 272 affiliates, (including software), services, facilities, and customer network services information (excludes CPNI) from the Verizon BOCs (except for exchange access services, and interLATA services that are the subject of other procedures), during the Audit Test Period. We also inquired of management and management indicated that payphone related services and Billing and Collection (“B&C”) services are the only two services that the BOCs provide to section 272 affiliates and unaffiliated entities. Management also indicated that VSSI was the only section 272 affiliate which received payphone related services from the Verizon BOCs during the Audit Test Period; and VSSI, VES and VLD were the only section 272 affiliates which received B&C services from the Verizon BOCs during the Audit Test Period.

   The extent of payphone related services purchased by unaffiliated parties during the Audit Test Period totaled $13,228,840. The list of payphone related services provided by Verizon BOCs included:

   - Recommendation and/or selection of a long distance carrier as the Presubscribed Interexchange Carrier (“PIC”) on Verizon payphones for 0+/00- operator service calls (""0+/00-")
   - Routing of 1+ interLATA coin calls from Verizon payphones to a long distance carrier and counting and collection of associated cash ("1+")
   - Marketing and point-of-sale advertising of a dial around service
   - Sales of prepaid calling cards

The extent of B&C purchases by unaffiliated parties during the Audit Test Period totaled $296,082,312. The list of B&C services included:

- Message Ready Service
- Invoice Service
- Pay-Per-Call Billing Service
- Call Recording Service
- End-Users Communications Service
- SubCIC Service
- Supplemental Services
- Direct Bill Preparation and Distribution Services (not provided to unaffiliated entities)
- Directory Publishing Service (not provided to unaffiliated entities)
- Wireless Premium One Bill Service (not provided to unaffiliated entities)

a.) We requested and obtained a list of billed items related to the payphone related services and Billing and Collection services provided to unaffiliated entities by month during the Audit Test Period. We selected a statistically valid sample of 95 billed items provided to unaffiliated entities for the same goods (including software), services, facilities, and customer network services information (excludes CPNI), and excluding local exchange services, that were purchased by the section 272 affiliates. The selection of samples contained four billed items or samples related to the payphone related services and 91 billed items or samples related to B&C services.

<u>Payphone Related Services</u>
The payphone related services selected provided to unaffiliated entities were 0+/00-, 1+, and sales of prepaid calling cards. The same services were provided to VSSI. We requested and obtained the written agreements for the above mentioned payphone related services for VSSI and also the corresponding unaffiliated entities. We compared the rates, terms and conditions of VSSI's written agreements for 0+/00-, 1+, and sales of prepaid calling cards with the agreements for the unaffiliated parties. We noted the following differences:

- <u>0+/00- services</u>
  The commission rates for calls routed from Verizon BOC payphones were different for the different entities under each agreement. The VSSI commission rate varies from 55-60% of gross revenue, while unaffiliated entity commission rates ranged from 49-52% or the agreement did not mention rates. Differences were also noted in the number of days available for each entity to pay the invoices, the duration of the contract and the number of days available for each entity to provide access to records under an audit.

- <u>1+ services</u>
  The commission rates for calls routed from Verizon BOC payphones were different for the different entities under each agreement. The VSSI agreement calls for a payment of 78% commission rate while an unaffiliated entity agreement calls for 43% rate. Differences were also noted for which party bears the cost of auditing of records, unaffiliated entities sometimes provide their own equipment to be installed on payphones, and the number of days available for each entity to pay the invoices.

- Sales of prepaid calling cards
  The commission rates were different for the different entities under each agreement. The VSSI commission rate varies from 5-10% while for unaffiliated entities commission rates range from 10-35%. Differences were also noted for the supply, installation, and maintenance of unaffiliated company vending machines (VSSI does not use vending machines), the length of the contract and also the reimbursement to the Verizon BOC of commission audit costs.

Billing & Collection Services
The sample selected included 91 items related to the Billing and Collection services provided to unaffiliated entities. A total of 22 unaffiliated parties were identified from the samples who received Billing and Collection services which were also provided to section 272 affiliates. The B&C services provided to each of the unaffiliated entities were covered by individual agreements (22 agreements in total). The B&C services were provided to only three section 272 affiliates during the Audit Test Period (VES, VSSI and VLD) and are covered by one agreement which was the common agreement for all section 272 affiliates. We examined the common section 272 B&C agreement with each of the 22 individual agreements from the unaffiliated entities to compare the rates, terms and conditions of the items purchased under the Billing and Collection contracts.

Terms and Conditions
The terms and conditions of the section 272 affiliate agreement was compared with all of the 22 agreements for unaffiliated entities. We noted the following differences:

- 2 out of the 22 unaffiliated parties had different provisions under the late payment charges section in that the unaffiliated entities agreements had no provision for 60 days advance notice

- 18 out of the 22 unaffiliated parties had different provisions related to the extension/renewal and automatic extension/renewal provisions.

- Under the section for the Occurrence of an Event of Default, one of the unaffiliated party agreements had 60 days from the date of a default notice to cure the Event of Default while the other entities including the section 272 affiliate had 30 days

- Under the section for Termination Without a Cause, one of the unaffiliated entity agreements had no provision regarding the services that are offered pursuant to tariff in applicable jurisdictions

- Under the section for Carrier Identification Codes (“CICs”), two differences were noted. One of the unaffiliated entity agreements had an extra provision under the section and another unaffiliated entity agreement had provision under the section for Verizon to administer and provide separate Purchase of Accounts Receivable reports and Ancillary Bills for each of Carrier’s CICs, Access Carrier Name Abbreviations and/or Alternate Billing Entity Codes.

- Under the Assignment section, all of the 22 unaffiliated entities had a provision stated as follows "With the Exception of collateral agreement, entity may assign all or part of its rights and obligations to a subsidiary or affiliate of the entity without VERIZON's consent, but with written notification to VERIZON.” This provision is different from the section 272 affiliate agreement which states “VERIZON AFFILIATES shall not assign this Agreement, in whole or in part, without the prior written consent of VERIZON; provided, however, that VERIZON AFFILIATES may assign all or part of its rights and obligations to a subsidiary or affiliate of VERIZON AFFILIATES without VERIZON's consent, but with written notification to VERIZON.”

Rates
Of the B&C services provided, seven services were provided to the unaffiliated entities. The rate for each service under B&C for the section 272 affiliate agreement was compared with the rates for the unaffiliated entities receiving the same service. We noted the following differences:

- Message Ready Service
  For the Message Ready Service under B&C, we noted 22 unaffiliated entities were subscribed to the service. We noted the following differences in rates under the Message Ready Service:

  - Different discount provisions were noted under “SA1.2 Non-Detail Credit and Miscellaneous Records.” The discount provision related to OADA discount for CICs 00636, 00811, 00899.

  - Different rates were noted under all 22 unaffiliated entities under “SA1.4 Bill Rendering Rate.”

- Invoice Service
  For the Invoice Service under B&C, we noted three unaffiliated entities were subscribed to the service. We noted the following differences in rates under the Invoice Service:

  - Different rates were noted for all the three unaffiliated entities under “SA2.2 Bill Rendering Rate” ranging from $1.10 and $1.25 per bill (based on region) for the unaffiliated entities to $1.15 and $1.30 per bill for section 272 affiliates.

  - Under “SA2.4 Complementary Services,” differences were noted for the three unaffiliated entities for CIC(s).

  - Also a provision found in the section for "SA2.4.4 Quality Control Review Per Invoice All Verizon Billing Regions $3.00" which was not found under the section 272 agreement.

- Pay-Per-Call Billing Service
  For the Pay-Per-Call Billing Service under B&C, we noted eight unaffiliated entities were subscribed to the service. We noted the following differences in rates under the Pay-Per-Call Billing Service:

  - Different rates were noted for all eight unaffiliated entities under “SA3.4 Bill Rendering Rate” ranging from $1.10 and $1.25 per bill (based on region) for the unaffiliated entities to $1.15 and $1.30 per bill for section 272 affiliates.

- An additional provision for rates was found under "SA3.5 Message Processing Rate" for five of the unaffiliated entities.

- Seven of the unaffiliated entities did not have the following provision under SA3.7 Exchange Carrier Memorandum (EC Memo) or Recourse Adjustment- "With Enquiry service: For all Billing regions- No charge."

- <u>Call Recording Service</u>
  For the Call Recording Service under B&C, we noted one unaffiliated entity had subscribed to the service. We noted no differences.

- <u>End-Users Communications Service</u>
  For the End-Users Communications Service under B&C, we noted 16 unaffiliated entities were subscribed to the service. We noted no differences.

- <u>SubCIC Service</u>
  For the SubCIC Service under B&C, we noted ten unaffiliated entities were subscribed to the service. We noted one unaffiliated entity had no provision in the contract regarding the rates for this service.

- <u>Supplemental Services</u>
  For the Supplemental Services under B&C, we noted three unaffiliated entities were subscribed to the service. We noted that two of the unaffiliated entities had no provision regarding the rates for supplemental services.

<u>Amount Section 272 Affiliate Billed by BOC</u>
We requested and obtained from management the amounts billed by the BOC for B&C services and payphone related services provided to section 272 affiliates. The aggregate amount billed to VES, VLD and VSSI for the B&C services during the Audit Test Period totaled $308,402,773. The aggregate amount paid in commission by VSSI for the payphone related services during the Audit Test Period totaled $43,989,342. We inquired of management whether the VSSI commission payments for payphone related services represent the amount billed by the BOC and management indicated the following:

> *"The BOC/ILEC by way of Public Communications does not issue invoices to VSSI for the payphone services. Instead, VSSI tracks the revenue generated, calculates the commission payment due to the BOC/ILEC based on our affiliate agreements, remit payment and issue a statement detailing the payment on a monthly basis. "*

These commission payments by VSSI were considered as amounts billed by the BOC as the BOC does not issue invoices to VSSI for the payphone related services.

<u>Amount Recorded by BOC</u>
Management was unable to provide the amount recorded by the BOC. Management indicated the following:

> *"Verizon doesn't journalize by the individual bill, only by the bill cycle, which includes all bills that were processed during that bill cycle as a total.*

> *Verizon East records revenue and receivable amounts in its billings systems at a detail customer level. These amounts are summarized at a financial account code level as they pass to the BOC/ILEC's general ledger systems. These amounts are aggregated on the books of the BOC/ILEC's to various FCC USOA accounts. There are internal control functions in place between the billing systems and financial systems to ensure all billed levels are recorded. Receivable collection systems maintain currently due and past due balances from customers regardless of whether the customer is an affiliate or not. There is also match off process in place whereby the expenses recorded by the affiliate correspond to the revenue booked by the BOC/ILEC. This process is used to eliminate intercompany revenue and expenses."*

We inquired of management regarding the source of the population of billed items (related to payphone related services and B&C) selected for this procedure and determined that the sampled items were pulled from billing systems which are fed directly to the general ledger.

<u>Amount Paid by section 272 Affiliate</u>
We requested and obtained from management the aggregate amounts paid by the section 272 affiliates for B&C and payphone related services during the Audit Test Period. Management provided the following totals:

- Billing and Collection – (BOC): VLD/VES $301,316,311 and VSSI $723,338
- Payphone related services (BOC/ILEC) –The paid dollars contain both BOC and ILEC transactions: VSSI $ 49,287,043.

We noted that the amount billed by BOCs for B&C services were more that the amount paid for services by the section 272 affiliates. Additionally, the amount received in commissions for payphone related services by BOCs was less than the amount paid by VSSI.

We inquired of management regarding the differences between the amount billed and amount paid. Management indicated that the amount paid for payphone related services included both BOC/ILEC and so amount paid was more than the amount received in commissions by the BOCs alone. With respect to the amount billed being more than the amount paid by section 272 affiliates for B&C services, management indicated that the differences between the two amounts can be attributed to billing disputes, timing of invoices and when they are recognized, and accruals established by the section 272 affiliate.

b.) We requested and obtained a list of local exchange services billed to the section 272 affiliates by Universal Service Order Code ("USOC") for the randomly selected month of March 2004. The list included the rates billed by USOC, by state. We selected a statistically valid sample of 95 USOCs that were billed to the section 272 affiliates by the Verizon BOC from the list of local exchange services. We requested and obtained the applicable tariff document, by state. We compared the rates charged per USOC by state for the 95 selections to the applicable tariff rate found under the tariff agreements for each state. We noted the following:

- For 76 out of the 95 samples, rates charged agreed with the applicable tariff rate.

- For 13 out of the 95 samples, the USOC service represented a $0 rated service associated with a billed product offering. $0 rated USOCs are not listed in the tariffs so comparison to the tariffs could not be performed.

- For 2 out of the 95 samples, rates charged were different from the applicable tariff rates as follows:

State	Bill Date	USOC	Description	Bill Rate	Tariff Rate
Rhode Island	3/24/04	XMF	Tie Line Channel/s	$15.78	$20.50
Massachusetts	3/23/04	RXR	Main Line/s	$7.80	$7.20

- For 4 out of the 95 samples, management was unable to provide a tariff reference or management was unable to locate the applicable USOC's in tariff agreements.

We compiled a list of 43 invoices on which the 95 USOC samples appeared and randomly selected 25 samples from the list of invoices. For the sample of invoices, we performed the following:

<u>Amount Section 272 Affiliate was Billed by BOC and Paid</u>
We documented the amount billed by the BOC for the 25 invoices. We noted the following from documenting the amounts paid:

- Twelve out of the 25 invoices were paid on time, and we noted no differences between amounts billed and paid
- Two invoices represented credit balances and did not require payment
- One invoice had a zero balance and did not require payment
- Three invoices had previous balances billed along with the current balance and the section 272 affiliate payment screens noted that only the current balances were paid.
- One invoice was not paid as of the month of March 2004 (month randomly selected in the procedure), but was paid in April 2004 one month after the due date.
- Verizon was unable to provide payment screens for 6 of the 25 invoices.

<u>Amount Recorded by BOC</u>
Management was unable to provide the amount recorded by the BOC. Management indicated the following:

> *"Verizon doesn't journalize by the individual bill, only by the bill cycle, which includes all bills that were processed during that bill cycle as a total.*
>
> *Verizon East records revenue and receivable amounts in its billings systems at a detail customer level. These amounts are summarized at a financial account code level as they pass to the BOC/ILEC's general ledger systems. These amounts are aggregated on the books of the BOC/ILEC's to various FCC USOA accounts. There are internal control functions in place between the billing systems and financial systems to ensure all billed levels are recorded. Receivable collection systems maintain currently due and past due balances from customers regardless of whether the customer is an affiliate or not. There is also match off process in place whereby the expenses recorded by the affiliate correspond to the*

> *revenue booked by the BOC/ILEC. This process is used to eliminate intercompany revenue and expenses."*

We inquired of management regarding the source of the population of billed items (related to local exchange services) selected for this procedure and determined that the sampled items were pulled from billing systems which are fed directly to the general ledger.

5. We inquired of management how the Verizon BOC disseminates information about network changes, the establishment or adoption of new network standards, and the availability of new network services to each section 272 affiliate and to unaffiliated entities. Management indicated the following:

> *"Verizon provides public notice regarding network change, and the establishment and adoption of new network standards in accordance with the Commission's network disclosure rules. See 47 C.F.R. Sections 51.325-51.335. Network disclosure for Verizon is made via the Internet website (www.verizon.com/regulatory). When network changes are made with less than six months notice, the network disclosures are distributed to interconnecting carriers in accordance with Section 51.333.*
>
> *The local operating companies do not and will not disclose to the 272 affiliates or any other affiliated or unaffiliated telecommunications carriers, any information about planned network changes until appropriate notice has been given. These methods are the same throughout the Verizon territory"*.

We noted no differences in the manner in which information regarding network changes, establishing or adopting new network standards, and the availability of new network services is disseminated to each section 272 affiliate and to unaffiliated entities.

6. At the service call centers observed in Procedure 7, we obtained and inspected scripts that Verizon BOC's customer service representatives recite to new customers calling to establish new local telephone service or to move an existing local telephone service to another location within BOC in region territory. In addition, we obtained the script that is used in Verizon's Consumer Call Centers' Voice Response Unit. We observed that the scripts contain language informing the consumer of his/her choice of providers and that these providers, along with the interLATA service affiliates, are identified to consumers. In addition, we obtained and inspected the written content of the Verizon BOC website for on-line ordering of new service or to move existing service local telephone service. We determined that the language in the script specifically informed the consumer of his/her right to choose a service provider and that these other interLATA service providers, along with the interLATA service affiliate were identified to the consumers.

7. We obtained a complete listing, as of the end of the Audit Test Period, of all Verizon BOC sales and support customer service call centers.

   a.) We requested of management and were provided a list of Verizon BOC call centers responding to inbound callers requesting to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory. From this listing, we identified and grouped each call center by type of customers, viz., "Consumer" or "Business." Using a random number generator, we selected six Consumer call centers and four Business call centers. We listened to 1,438 calls to obtain the required sample of 100 calls in total (60 Consumer and 40 Business), or 10 calls per call center, in which the customer service representatives attempted to market the section 272 affiliate's interLATA service to callers requesting to establish new local telephone service or to move an existing local telephone service.

We noted one call into the Binghamton Consumer Call Center where the Verizon representative clearly informed the caller of her right to choose a long distance provider, but when the caller asked for "help with that" the representative began to market Verizon Long Distance without informing the caller of a list of other providers.

We also noted one call into the Manhattan Business Call Center where the Verizon representative clearly informed the caller of his choice of long distance providers, but failed to communicate to the caller the representative's ability to read a list of other providers of long distance to the caller.

For the remaining 98 calls in the sample for both Consumer and Business Centers, when applicable, we noted the equal access message was conveyed clearly to the caller and the customer service representative did not attempt to influence the caller to obtain the interLATA services of the section 272 affiliate prior to providing the equal access message. Further, we noted no cases for these remaining 98 calls, when applicable, in which the Verizon Representative did not inform the caller of his right to select the interLATA services provider or did not inform the caller of other providers of interLATA services.

The following represents a breakdown of the nature of the remaining 98 calls:

- For 64 calls, the equal access messages were conveyed, as well as the clarity of the equal access message delivered during the observed call.

- For 15 calls, the customer demanded Verizon service or another specific long distance provider after the Verizon representative communicated choice of service providers, but before Verizon Long Distance was marketed to such customers and before the Verizon representative communicated that a list of providers is available to read to the caller.

- For nine calls, the customer requested new service but before equal access message was read the customer states that no long distance service is needed.

- For five calls, the customer stated that no long distance was needed after the Verizon representative stated there was a choice of providers but before marketing of Verizon Long Distance and before the Verizon representative communicated that a list of providers is available to the caller

- For three calls, the customer demanded Verizon Long Distance Service before Verizon Long Distance was marketed and before the Verizon representative recited the equal access message. The Verizon representative confirmed with the caller of a choice of providers at the end of the call. The caller acknowledged the choice and requested Verizon as the Long Distance Provider.

- For one call, the customer informed the Verizon representative that they would call back after the Verizon representative has communicated choice of service providers, but before the marketing of Verizon Long Distance and before the Verizon Representative communicated that a list of providers is available to read to the caller.

- For one call, the customer requested new service, but after the Verizon representative reviewed the customer's account, determined and communicated to customer that she was not eligible for long distance because of a past due balance.

b.) We obtained a list of four call centers that might incidentally respond to inbound callers requesting to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory (such as sales and service centers that usually receive customer inquiries from existing customers). We noted that the listing did not include any consumer call centers. Using a random number generator, we selected two Business call centers, and listened in to 20 calls per center. We listened to a total of 40 incoming calls to the two business call centers selected for this procedure. Of the 40 incoming calls, we did not find any instances of caller requests to establish new local telephone service or to move an existing local telephone service.

c.) We obtained from Verizon the ten phone numbers which channel into the Consumer Call Centers. We performed test calls to each phone number provided. The test calls were performed subsequent to January 2, 2005, the end of the engagement period. We inquired of management and management indicated that no changes had been made to the VRU systems in place during 2004 and subsequent to January 2, 2005. We noted the following based on test calls performed:

- For eight of the phone numbers provided for Delaware, Maryland 301 Area Code, Maryland 410 Area Code, New England (for Maine, Vermont and Massachusetts), New York (down state), New York (up state), Virginia and West Virginia, the equal access script was heard before reaching a Consumer Service Representative from Verizon.

- For the phone number provided for New Jersey, a caller is directed to a 'Welcome Center' which collects personal information from the caller in order to run a brief credit check for past due bills. After proceeding through the 'Welcome Center', we heard the equal access script before being connected to a Consumer service representative.

- For the phone number provided for Pennsylvania, we noted during the first call placed the VRU was not recited before a Verizon Representative was reached. We performed three additional calls to the Pennsylvania Call Centers and the equal access script was recited for each of these calls.

8. We inquired of management and management indicated that Verizon has no arrangements for incoming telemarketing and no call centers that are managed by third parties in which representatives of third-party contractors of the Verizon BOC respond or might incidentally respond to customers requesting to establish new local telephone service or to move existing local telephone service to another location within the BOC in-region territory.

9. We inquired of management and management indicated that no third party contractors provide inbound telemarketing services that would be subject to the equal access notification requirements of section 272.

10. We inquired of management and management indicated that no third party contractors provide inbound telemarketing services. Accordingly, no contracts exist between the Verizon BOC and third-party contractors to provide inbound telemarketing services.

<u>OBJECTIVE VIII</u>. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates.

1. We inquired of management regarding the practices and processes the Verizon BOC/ILEC has in place to fulfill requests for telephone exchange service and exchange access service for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates in each state where Verizon has been authorized to provide in region interLATA services. Management provided documentation describing the practices and processes the Verizon BOC/ILEC has in place to fulfill requests for telephone exchange and exchange access service for the section 272 affiliates, other affiliates, and nonaffiliates. Such documentation is maintained in our working papers. Management indicated that the same processes and practices are used to fulfill requests for both affiliates and nonaffiliates.

   We inquired of management regarding the Verizon BOC's internal controls and procedures designed to implement its duty to provide non-discriminatory service for fulfillment of requests for telephone exchange service and exchange access service. Management provided the following response:

   > *"Verizon's 272 affiliates are required to use the same installation and repair interfaces with the Verizon ILEC operations as are made available to nonaffiliates. ASRs and trouble tickets are processed through the same interfaces and systems for both 272 affiliates and nonaffiliates. Also, the determinations of the availability of facilities for 272 affiliates and nonaffiliates use the same systems.*
   >
   > *The systems that process installation orders apply the same standard minimum provisioning intervals (where facilities exist) and the same first-come-first-served priority to special access orders regardless of the identity of the customer. The systems that track and process the facilities checks are programmed to process orders on a first-come-first-served basis, regardless of the identity of the customer. Where facilities are required to be built or installed to provision a special access service request, Verizon performs that work on a first-come-first-served basis, regardless of the identity of the customer. Similarly the systems that track and process trouble reports process reports on a first come first service basis, regardless of the identity of the customer. Thus, at each step in the fulfillment of requests the same treatment is given to nonaffiliated customers and affiliate customers. Verizon also provides procedural guidelines for the provisioning and maintenance of these services, regardless of the identity of the customer. Employees are trained in these procedures and compliance is monitored monthly by a sampling of orders and trouble reports. Reinforcement of Verizon's commitment to customer parity is frequently a topic of review at general team meetings. Verizon sets its internal service objectives and internally measures both its provisioning and maintenance performance by geographic location, not by customer identity. Management performance evaluations and the Verizon Incentive Plan payouts are based on meeting the predetermined service objectives. Verizon requires each employee to review yearly the company's Code of Business Conduct, in which dealings with our*

competitors, customers and suppliers, both affiliate and non-affiliate are outlined.

It should be noted that different customers request different services in different locations and with different requested intervals, making the actual requested service experience different over time and across customers for reasons outside Verizon's control.

Part of the internal control environment involved extensive communication and training to assure all employees in the company are aware of the Section 272 obligations. The Section rules are summarized on the Affiliate Interest corporate web site.

To support this communications effort, the Senior VP-Regulatory Compliance sent a letter to the "'Top 300" senior managers on September 20, 2004 emphasizing the importance of complying with Section 272 obligations. In these communications the senior managers are asked to assure their organizations are aware of, and follow, the rules. Summaries of the Section 272 rules or links to the internal corporate affiliate web sites were included in the correspondence. Further, letters were sent to Group Presidents and equivalents VPs in April 21, 2003 from the Senior Vice President-Regulatory Compliance, which focused on Section 272 obligations as it coincides with organizational and functional changes. In addition, on January 12, 2004, letters were sent to Codetel International Communications Inc., TELUS Communications Inc., TELUS Communications (Quebec) Inc., and Puerto Rico Telephone Company from the Group Senior Vice President – International Operations focusing on the obligations under Section 272 and the FCC affiliate transaction rules.

The importance of adhering to all affiliate regulations, including Section 272, was emphasized through corporate-wide emails sent to all employees on July 31, 2003 and July 23, 2004. In order to further explain the rules, a website address was provided to locate Verizon's Affiliate Transaction Policy.

Training efforts begun shortly after the passage of the Telecommunications Act on Section 272, continued through 2004. During 2003 and 2004, just under 2,500 employees attended training sessions sponsored by the affiliate organization."

2. We inquired of management regarding the processes and procedures followed by the Verizon BOC/ILEC used to provide information regarding the availability of facilities used in the provisioning of special access service to its section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates for each state where the Verizon BOC/ILEC has been authorized to provide in-region interLATA services. Management provided documentation, which is maintained in our working papers, describing the processes and procedures followed by the Verizon BOC/ILEC used to provide information regarding the availability of facilities in the provisioning of special access service to its section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates for each state where the Verizon BOC/ILEC has been authorized to provide in-region interLATA services. Additionally, management indicated the following:

"As a general matter, carriers do not get information about facility availability. The wholesale website and Firm Order Confirmation process used to place orders do not provide any information to carriers on facility availability for special access services. Account Management or Customer Service contacts may provide information in response to specific customer requests. In any event, the same type of information and timeliness of information are provided to Section 272 affiliate, other affiliates and nonaffiliates.

As additional background, during the Firm Order Confirmation (FOC) process, no specific information is provided to the customers (affiliate or nonaffiliates) about the availability of facilities over which the service is to be provided. After receipt of a complete and accurate access service request (ASR) from a carrier customer, an electronic scan of inventory databases is performed within Verizon. If electronic records indicate that appropriate facilities exist, a Firm Order Confirmation (FOC) is returned to the carrier by Verizon with either the requested due date or the standard minimum provisioning interval due date. If electronic records do not indicate that appropriate facilities exist, Verizon engineering personnel handle the request manually. If engineering personnel find appropriate facilities, the inventory database is updated and a FOC is returned to the carrier with either the requested due date or the standard minimum provisioning interval due date. If engineering personnel do not find appropriate facilities, an engineering work order (EWO) is created to install, enhance or build appropriate facilities and a FOC is returned to the carrier reflecting the time needed to complete the EWO and provision the service. While the FOC information (as specified by the industry Ordering and Billing Forum (OBF) guidelines and implemented by Verizon) does return to the customer an estimated completion date, it does not contain any information regarding the availability of facilities that might be used to provision the service. The information returned on the FOC represents the best estimate at that time and the date that the special access service will be completed. This estimate is based on an assessment of mechanized facilities inventory records and/or a manual engineering assessment of facilities, if required."

We inquired of management whether any employees of the section 272 affiliates or other affiliates have access to, or have obtained, information regarding special access facilities availability in a manner different from the manner made available to nonaffiliates. Management indicated that it is not aware of any employees of the section 272 affiliate or other affiliate carriers that have access to, or have obtained, information regarding special access facilities availability in a manner different from the manner that such information is also made available to nonaffiliates.

3. We requested of management written methodology followed by the Verizon BOC/ILEC for documenting time intervals for processing orders, provisioning of service and performing repair and maintenance services for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates for the services described in Procedure 4 below. Management provided documentation describing how the Verizon BOC/ILEC documents time intervals for processing orders, provisioning of service and performing repair and maintenance services.

Management indicated the following:

> *"Verizon documents the time interval for the installation and repair of special access and FG-D services using the information captured by the appropriate systems that process the installation and repair of access services and by using established business rules.*
>
> *The business rules utilized by Verizon for the special access services are the business rules associated with the service quality reports required by paragraph 53 of Appendix D to the BA/GTE Merger Order released by the FCC on June 16, 2000. Management indicated the FCC Common Carrier Bureau approved those business rules and the FCC Wireline Competition Bureau subsequently approved modifications to those business rules. Management indicated that Verizon uses the same business rules to provide the same metrics for the special access services described in Procedure 4."*

Management also indicated the following:

> *"Since Verizon did not reference FG-D in any of its Section 271 affidavits, Verizon had not previously committed to make FG-D service quality performance data available as part of its commitments associated with Section 271 approval process or Section 272 obligations.*
>
> *In order to provide service quality data for FG-D in the context of this audit, Verizon has chosen to use essentially the same business rules as are being used for special access. "*

<u>Installation Intervals</u>

Management indicated that the methods used to document the installation intervals are based on the information contained in the systems and timestamps that Verizon utilizes as part of the Access Service Request ("ASR") process used for carrier orders. We noted the following time stamps are used by Verizon systems automatically to compute the installation interval: (1) the "Clean ASR Date" or "Application Date", (2) the "FOC Returned Date", and (3) the "Completion Date." The time stamps are obtained from the following relevant specific systems: CABS Automated Front End ("CAFÉ"), Exchange Access Control and Tracking ("EXACT"), Work Force Administrator ("WFA") and Automated Work Administration System ("AWAS").

<u>Repair Intervals</u>

Management indicated that total trouble reports and average repair intervals are documented based on the information contained in the systems and date/time stamps that Verizon utilizes as part of the trouble report process. The time stamps include: "Date/Time Received" and "Date/Time Cleared." The stamps are captured by WFA and AWAS.

<u>Average Time of PIC Change</u>

Management indicated that the reporting of Average Time of PIC Change is derived from information contained in the underlying Operational Support system, Xpress Electronic

Access (“XEA”), except for the former GTE Pennsylvania (“fGTE PA”) jurisdiction. For the fGTE PA jurisdiction, those reports are derived from the Subscription Service (“SS”) system. We noted from the documented methodology that XEA captures information in the following fields: Transaction Code, Status Indicator, Access Carrier Name Abbreviation, Carrier Identification Code, Tracking Date, Jurisdictional Indicator, State, LEC_ID, Customer Type Indicator, PIC Source Indicator and RRN. The methodology further states the following time stamps are used to compute the elapsed time between receipt and activation in the switch: (1) “The XEA Record received time stamp,” “Due date with time 00:00:00” and “the switch time stamp.” The stamps are captured in XEA. The SS system captures information in the following fields: Transaction Date/Time, State, Access Carrier Name Abbreviation, Carrier Identification Code, Customer Type Indicator , Jurisdiction Indicator, Billing Telephone Number, Current Customer Code, Working Telephone Number, Requested Due Date, Sent to AP Date/Time, Switch Date/Time, Sent to AC Date/Time.

4. We requested and obtained from management, for each state where Verizon was authorized to provide in-region interLATA services, the performance data maintained by Verizon BOC/ILEC during the Engagement Period, by month. These reports indicate time intervals for processing orders (on initial installation requests, subsequent requests for improvement, upgrades or modifications of service, and repair and maintenance), for provisioning of service, and for performing repair and maintenance services for the section 272 affiliates, the BOC and other BOC affiliates, and nonaffiliates, as separate groups. We requested performance data reports for the following service categories:

- Telephone exchange service, if any of the separate groups resells local service or intraLATA toll service. This does not include the selling of BOC local service or intraLATA toll service to retail customers.

- Exchange access services as submitted through an ASR for DSO, DS1, DS3, feature group D, and OCn, as individual groups. For BOC and other BOC affiliate group, exchange access measurements should cover services provided to end users on a retail basis and services provided to affiliates on a wholesale basis.

- Unbundled network elements, if any section 272 affiliate purchased unbundled network elements.

- Presubscribed Interexchange Carrier (“PIC”) change orders for intraLATA toll services and interLATA services.

Management informed us that there were certain combinations of groups and metrics that would not be reported. Management indicated the following:

> For those states were Verizon has been authorized to provide in-region interLATA services:
>
> 1) Telephone Exchange Service –nonaffiliated companies do not resell local service or intraLATA toll service from the BOC. The service category does not need to be reported by any of the three groups.

2) UNE – no section 272 affiliates purchase unbundled network elements from the BOC. The service category does not need to be reported by any of the three groups.

3) PIC Changes for the BOC and Other Affiliates group is not applicable, except for fGTE PA. The service category does not need to be reported for this group.

The performance reports provided by management are included in Attachment A-3.

We noted that the performance reports provided by management included the calculated denominators, results, means and standard deviations (where appropriate) for the following performance measures:

- Firm Order Confirmation Response Time
- Average Installation Interval
- % Installation Commitments Met
- Total Trouble Reports
- Average Repair Interval
- Average Time of PIC Change

We were informed by management as to certain limitations of the data provided. Management indicated the following:

"FGD RESULTS

The 2003 and 2004 FGD non-affiliate installation and repair results for all jurisdictions included in the audit include some trunks ordered by wireless carriers that may not be FGD trunks. Verizon estimates this to be 4.0% (416 of 11,549) of all orders and 2.0 % (91 of 4,495) of all trouble tickets for all jurisdictions and all of 2003 and 2004."

In addition, we noted that with the exception of the Average Time of PIC Change performance reports, the performance results for the state of Connecticut were aggregated with the state of New York.

We compared the business rules listed in the General Standard Procedures with the Merger Condition XIX business rules as well as the business rules set out in the user requirements documents and noted no differences.

We examined the performance measurement reports provided by management and noted instances where fulfillment of requests from nonaffiliates took longer than for either the section 272 affiliates or the BOC and other BOC affiliates. We provided such instances to management and management provided the following response as explanations where fulfillment of requests from nonaffiliates took longer than for either the section 272 affiliates or the BOC and other BOC affiliates:

"Primary Interexchange Carrier (PIC) Measures

Verizon processed carrier-initiated PIC transactions (mechanical batch submissions) using the same systems and procedures for all carriers, with no manual intervention *in handling incoming files that could affect the processing interval. After passing through a series of edits and updates, a small amount of the individual transactions may fall out for manual handling after the incoming files are processed. Those that do fall out are handled in a non-discriminatory fashion, first-in-first-out, and ultimately all valid PIC transactions were sent to the switch for implementation.*

Verizon has reviewed the monthly PIC change performance submitted for the audit for each state. There are cases where the interval is longer for nonaffiliates and instances where it is shorter. Variations between months and states are expected. Batch runs come in at different times during the day and files are of different lengths. As all carriers have been informed, these variables influence the processing time as measured for this interval. Based on Verizon's review of the data submitted for the audit, there is no pattern or trend in the 2003 or 2004 data in any state that would suggest further investigation is warranted to explain differences in intervals between 272 affiliates and nonaffiliates.

Special Access and Feature Group D (FGD) Measures

As required for this audit, Verizon submitted performance measurement results for 14 jurisdictions, in most cases for 24 individual months[4] *for a range of special and switched exchange access products (DS0, DS1, DS3, OCn and FGD). In total, Verizon reported 5,413 metrics across the 14 jurisdictions. Although some data show shorter intervals for the section 272 affiliates, there are two reasons that negative inferences cannot be drawn from the data. First, the data contain relatively low volumes of switched and special access orders from Section 272 affiliates across most states. Second, the interval measurements and maintenance measurements reflect data and circumstances that mask reasons for the different results.*

Of the 5,413 individual results, 4,651 instances were in months and states with fewer than ten 272 affiliate transactions. For example, of the approximately 3,200 exchange access installation and repair interval results reported for the audit, 2,966 (over 92%) of the monthly interval results for the 272 affiliates had fewer than ten transactions (service orders or trouble tickets) in a given month; virtually all of the occurrences of ten or more installation or repair results for 272 affiliates were for DS1 service. In those states and months where the Section 272 affiliate had fewer than ten transactions per month per state for a product category, any comparison to the results for nonaffiliates is of questionable or limited statistical value. In the months with slightly higher volumes, there was generally no observable pattern of longer intervals for nonaffiliates in comparison to Section 272 affiliates. As would be expected, for each month there is variation between the Section 272 affiliate and nonaffiliate results. The data reflect expected statistical variations and, as explained below, differences in user characteristics for each transaction.

Verizon's BOCs/ILECs have established and follow practices, procedures and policies to fulfill requests from unaffiliated entities for exchange access services within a period no longer than the period in which they fulfill similar requests for the same exchange access services to their affiliates. For FGD performance and for firm order confirmation (FOC) performance for both switched and special access, there

[4] In four states (VA, MD, WV and DC) data were reported beginning in April 2003, consistent with the long distance entry date, as required for the audit.

were no trends in the data Verizon submitted where 272 affiliates were consistently receiving shorter intervals than nonaffiliates in states and months where volumes were sufficient for a meaningful comparison.

For special access (DS1) installation and repair, there were instances when the Verizon BOCs/ILECs fulfilled requests from unaffiliated entities for exchange access services within an average time period longer than the average time period in which they fulfilled requests for such exchange access services to themselves and/or their 272 affiliates in states and months with more than ten 272 affiliate transactions. However, Verizon analysis shows that these results are due to the way that the data were aggregated in the measures rather than to any discriminatory treatment. The data mask differences between 272 affiliates and nonaffiliates in the types of customer orders, types of underlying facilities, and types of troubles. When the data are disaggregated to compare performance in like circumstances, the results no longer show a different pattern between 272 affiliates and nonaffiliates.

There are several reasons that negative inferences should not be drawn from the special access installation and repair results, including (but not limited to) the variations in technology and routes on specific requests for service; customer behavior not under Verizon's control; differences in underlying facilities for the circuits ordered; and the nature of troubles reported on the circuits. Special access services are unique services and any particular service installation request or reported trouble can potentially be very different from another request or trouble. While Verizon did not analyze all of the potential combinations of possible factors affecting special access performance results for all states, for all service categories, for all months due to the very high volume of nonaffiliate orders, sufficient analysis was possible to address several likely causes of the differences. To demonstrate the effect of customer actions and other potentially anomalous events on installation and repair intervals, Verizon analyzed DS1 installation and repair transactions for 2004 in states with higher volumes for 272 affiliates where the measures show longer intervals for nonaffiliates than for 272 affiliates.

Verizon selected two of the most significant reasons for differences in installation performance — customer requested due date changes and whether the order was for a project — and identified the installation performance results as shown below. Similarly, Verizon selected two of the measurable reasons for differences in maintenance and repair performance — whether there was trouble found on the circuit or not and, if so, the nature of the underlying facilities— and identified the maintenance and repair performance results as shown below.

DS 1 Installation

For installation, Verizon has determined that several factors can have a pronounced effect on the interval calculation (as measured in days). First, customers may change the requested due date on an order by issuing a supplemental access service request (ASR) after the BOC/ILEC has returned a FOC on the initial ASR. This action typically results in a longer installation interval than was first planned by Verizon, in order for Verizon to meet the needs and requirements of the customer. Second, installations that qualify as "projects" group many circuits together and typically assign all circuits one due date, thereby potentially skewing the average installation *interval calculation when project activity is included in the average installation interval calculation.*

To test the effect of these factors, Verizon analyzed data for two states that experienced higher volumes of 272 affiliate activity (ten or more orders in a month). Verizon analyzed 2004 data in those states where there were discrepancies between 272 affiliate and nonaffiliate results.

As discussed above, there are many reasons for differences in intervals between 272 affiliates and nonaffiliates. Verizon tested two of those reasons by recalculating the installation intervals for only those circuits not classified as projects and not having due date changes requested by the customer via a supplemental ASR. The intervals for these types of orders do not exhibit the gap between 272 affiliate and nonaffiliate results that is seen in the measures submitted for the audit. This is demonstrated for New York and Massachusetts for 2004 DS1 results in Table 1 and Table 2 below.

Table 1
2004 DS1 New York Installation Intervals and Order Volumes

Month	Type	As Submitted for the Audit		Excluding Projects and Customer Due Date Requested	
		Days	Orders	Days	Orders
01/2004	272 affiliates	23.90	80	19.30	54
	Nonaffiliates	22.40	2615	14.98	1360
	Difference	-1.50		-4.32	
02/2004	272 affiliates	14.27	67	12.85	61
	Nonaffiliates	26.41	2672	13.55	1302
	Difference	12.14		0.70	
03/2004	272 affiliates	16.85	66	15.51	59
	Nonaffiliates	22.59	3333	13.84	1795
	Difference	5.74		-1.67	
04/2004	272 affiliates	19.50	52	16.68	44
	Nonaffiliates	20.65	3039	15.52	1732
	Difference	1.15		-1.16	
05/2004	272 affiliates	14.33	51	12.46	48
	Nonaffiliates	19.69	3023	15.15	1674
	Difference	5.36		2.69	
06/2004	272 affiliates	11.52	144	11.24	136
	Nonaffiliates	22.06	3231	13.89	1817
	Difference	10.54		2.65	
07/2004	272 affiliates	14.79	145	17.54	101
	Nonaffiliates	22.05	2921	14.50	1575
	Difference	7.26		-3.04	

Table 1- continued
2004 DS1 New York Installation Intervals and Order Volumes

Month	Type	As Submitted for the Audit		Excluding Projects and Customer Due Date Requested	
		Days	Orders	Days	Orders
08/2004	272 affiliates	14.04	197	13.80	66
	Nonaffiliates	22.22	3028	14.36	1751
	Difference	8.18		0.56	
09/2004	272 affiliates	26.21	186	20.17	46
	Nonaffiliates	19.91	2732	14.50	1570
	Difference	-6.30		-5.67	
10/2004	272 affiliates	19.64	247	11.27	49
	Nonaffiliates	20.71	2940	14.04	1528
	Difference	1.07		2.77	
11/2004	272 affiliates	14.93	122	12.42	53
	Nonaffiliates	21.32	2660	13.91	1530
	Difference	6.39		1.49	
12/2004	272 affiliates	14.69	120	11.86	86
	Nonaffiliates	22.27	2525	14.18	1430
	Difference	7.58		2.32	

Table 2
2004 DS1 Massachusetts Installation Intervals and Order Volumes

Month	Type	As Submitted for the Audit		Excluding Projects and Customer Due Date Requested	
		Days	Orders	Days	Orders
01/2004	272 affiliates	27.28	25	29.00	16
	Nonaffiliates	25.79	847	11.90	472
	Difference	-1.49		-17.10	
02/2004	272 affiliates	14.67	24	14.05	21
	Nonaffiliates	19.46	958	11.67	489
	Difference	4.79		-2.38	
03/2004	272 affiliates	17.55	22	14.89	19
	Nonaffiliates	18.00	1134	12.12	639
	Difference	0.45		-2.77	
04/2004	272 affiliates	12.35	17	11.31	16
	Nonaffiliates	19.41	1043	11.87	548
	Difference	7.06		0.56	

Table 2 - continued
2004 DS1 Massachusetts Installation Intervals and Order Volumes

Month	Type	As Submitted for the Audit Days	As Submitted for the Audit Orders	Excluding Projects and Customer Due Date Requested Days	Excluding Projects and Customer Due Date Requested Orders
05/2004	272 affiliates	17.62	13	17.25	12
	Nonaffiliates	20.91	1090	13.36	677
	Difference	3.29		-3.89	
06/2004	272 affiliates	18.29	21	18.21	19
	Nonaffiliates	16.76	946	12.21	646
	Difference	-1.53		-6.00	
07/2004	272 affiliates	13.50	16	14.33	15
	Nonaffiliates	17.27	980	11.62	594
	Difference	3.77		-2.71	
08/2004	272 affiliates	15.85	20	13.33	18
	Nonaffiliates	21.42	1150	12.73	595
	Difference	5.57		-0.60	
09/2004	272 affiliates	14.95	19	12.63	16
	Nonaffiliates	20.46	1154	12.56	534
	Difference	5.51		-0.07	
10/2004	272 affiliates	16.13	15	14.09	11
	Nonaffiliates	17.89	976	11.44	629
	Difference	1.76		-2.65	
11/2004	272 affiliates	11.00	27	10.15	26
	Nonaffiliates	17.96	902	11.15	578
	Difference	6.96		1.00	
12/2004	272 affiliates	11.13	24	11.18	22
	Nonaffiliates	19.03	713	13.37	511
	Difference	7.90		2.19	

The difference between the nonaffiliates' intervals and the 272 affiliates' intervals, in the chart above, narrows and often results in the nonaffiliates receiving shorter intervals. In 2004 before analysis there were 10 of 12 months in NY and 10 of 12 months in MA where the 272 affiliates' interval was of shorter duration that the nonaffiliates' interval. After analysis, nonaffiliates experienced intervals of shorter duration than 272 affiliates in five of 12 months in NY. In MA, nonaffiliates experienced shorter intervals than 272 affiliates in nine of the 12 months. And in the months where the 272 affiliate intervals were shorter than the nonaffiliate intervals, *the differences were much smaller and often insignificant (in two of the months in NY and two of the months in MA, the differences were a day or less compared to a range of seven to 12 days in the measures submitted for the audit).*

DS 1 Maintenance

For repair activity, Verizon has determined that there are several main factors that influence the maintenance data and prevent a meaningful comparison. These factors are volume of embedded circuits and troubles, the inclusion of trouble tickets cleared to Test OK (TOK) and No Trouble Found (NTF), and the type of facility upon which the services are provisioned.

During the months reviewed, across all regions, nonaffiliates reported 41,378 troubles on DS1 services compared to only 3,898 troubles reported by 272 affiliates. As a result of the low volume of 272 affiliate troubles in any given month, a single ticket can have a significant impact on performance. For example, during the month of January there were only three CO or FAC troubles. Recalculating the MTTR (excluding NTF/TOK) by removing just one ticket changes the MTTR from 4.46 to 5.93, a difference of 1.47 hours.

Tickets cleared to NTF and TOK were included in the measures submitted for the audit. Both NTF and TOK tickets usually take little time to execute and tend to drive down the number of hours reported in mean time to restore (MTTR). In addition, the volume of NTF and TOK troubles received is largely influenced by customer behavior and is outside of Verizon's control. Access customers are expected to test their own network and equipment before submitting a ticket to Verizon. The quality of the customers' testing systems and the customer's ability or inclination to test before reporting a trouble to Verizon can cause large differences in the percentages of tickets cleared to NTF and TOK. By excluding these trouble tickets and recalculating MTTR, the gap between 272 affiliate results and nonaffiliate results narrows, as detailed below for January through December of 2004 for DS1 in NY, as seen in Table 3 below. NY was selected because it experienced higher volumes of 272 affiliate activity compared to other states (ten or more orders in a month).

Table 3
2004 DS1 New York MTTR and Trouble Ticket Volumes

Month	*Type*	*As Submitted for the Audit*		*Excluding NTF and TOK*	
		Hours	*Tickets*	*Hours*	*Tickets*
01/2004	*272 affiliates*	*1.65*	*15*	*4.46*	*3*
	Nonaffiliates	*5.16*	*2927*	*7.43*	*1862*
	Difference	*3.51*		*2.97*	
02/2004	*272 affiliates*	*3.08*	*16*	*6.40*	*7*
	Nonaffiliates	*6.06*	*3072*	*8.22*	*2086*
	Difference	*2.98*		*1.82*	

Table 3- continued
2004 DS1 New York MTTR and Trouble Ticket Volumes

Month	Type	As Submitted for the Audit Hours	As Submitted for the Audit Tickets	Excluding NTF and TOK Hours	Excluding NTF and TOK Tickets
03/2004	272 affiliates	4.36	19	5.05	16
	Nonaffiliates	5.51	3237	7.70	2117
	Difference	1.15		2.65	
04/2004	272 affiliates	3.00	31	7.34	10
	Nonaffiliates	6.11	3470	8.38	2368
	Difference	3.11		1.04	
05/2004	272 affiliates	2.71	27	12.03	5
	Nonaffiliates	5.92	3769	8.39	2443
	Difference	3.21		-3.64	
06/2004	272 affiliates	3.47	29	8.13	11
	Nonaffiliates	6.58	3391	9.07	2301
	Difference	3.11		0.94	
07/2004	272 affiliates	3.90	36	8.54	15
	Nonaffiliates	6.99	4052	10.27	2564
	Difference	3.09		1.73	
08/2004	272 affiliates	3.82	52	7.28	24
	Nonaffiliates	6.22	4190	9.04	2671
	Difference	2.40		1.76	
09/2004	272 affiliates	4.08	46	8.44	21
	Nonaffiliates	6.54	3856	9.00	2652
	Difference	2.46		0.54	
10/2004	272 affiliates	1.89	58	5.44	15
	Nonaffiliates	5.69	3166	7.78	2177
	Difference	3.80		2.34	
11/2004	272 affiliates	4.51	42	7.29	23
	Nonaffiliates	5.46	3049	7.51	2080
	Difference	0.95		0.22	
12/2004	272 affiliates	6.09	18	11.65	9
	Nonaffiliates	5.88	3199	8.19	2174
	Difference	-1.79		-3.46	

As the analysis above demonstrates, when NTF and TOK activity is removed from the calculation, the repair interval increases for both nonaffiliates and 272 affiliates. After removing NTF and TOK from the calculations, the gap between 272 affiliate and nonaffiliate results narrows in all but one month. In two months the nonaffiliates *experience shorter clearing intervals and in three months the gap was less than one hour.*

Another fundamental difference between 272 affiliate repair activity and nonaffiliate repair activity is the facilities on which the circuits are provisioned.

The technology (copper or fiber) utilized to provision circuits is dependent upon the specific route and nature of the special access service. Section 272 affiliates more often order backbone, network infrastructure circuits where fiber facilities are in place. In contrast, nonaffiliates more often order special access circuits that terminate at a remote end user location served by copper facilities. As is shown in Table 4 below, the 272 affiliate troubles more often occur on fiber facilities, while nonaffiliate troubles more often occur on copper facilities.

Fiber loops tend to experience trouble less often and the required fix is more often at the central office or at a customer premises, as opposed to on a pole line or in an underground facility. Moreover, circuits provisioned on fiber optic facilities can typically be restored more quickly than those on copper facilities. Facility troubles on copper often require dispatches to several outside work groups such as Special Services repair and construction. Many times tickets for copper repair need to be referred to multiple work groups for resolution. Interdepartmental team conference calls are often required to resolve these issues. Multiple dispatches and interdepartmental coordination are less likely to be required for a circuit on fiber that fails. Copper facilities typically are more prone to plant operating errors in the field. These include troubles caused by human errors such as crossing up terminals at a cross-connect box, which typically require a dispatch to clear, resulting in longer repair intervals. Fiber loops are usually segregated from or independent from copper facilities and are more protected from the type of inadvertent errors in the field described above.

Connectivity to network elements for remote testing has been greatly improved on fiber, whereas on copper facilities, remote testing is more challenging. Fiber technology is, by design, more dependable than copper. For example, survivability features, redundant designs and SONET technology typically give fiber facilities a lower failure rate and a shorter average repair interval than copper. Verizon recalculated the clearing intervals for NY DS1 trouble reports based on whether the underlying facilities were copper or fiber. The analysis for the months where the underlying data was available appears on the following pages.

Table 4
2004 DS1 New York MTTR of Troubles
Found on Services Provisioned on Copper Versus Fiber

Month	*Type*	*Hours (Cop.)*	*Tickets*	*Hours (Fib.)*	*Tickets*
02/2004	*272 affiliate*	*none*	*0*	*5.12*	*3*
	Nonaffiliate	*9.24*	*1253*	*6.69*	*820*
	Difference	*NA*	*0*	*1.57*	

Table 4- continued
2004 DS1 New York MTTR of Troubles
Found on Services Provisioned on Copper Versus Fiber

Month	*Type*	*Hours (Cop.)*	*Tickets*	*Hours (Fib.)*	*Tickets*
03/2004	*272 affiliate*	*3.15*	*4*	*6.01*	*11*
	Nonaffiliate	*8.06*	*1335*	*7.11*	*771*
	Difference	*4.91*		*1.10*	
04/2004	*272 affiliate*	*13.48*	*3*	*3.74*	*5*
	Nonaffiliate	*9.20*	*1567*	*6.66*	*787*
	Difference	*-4.28*		*2.92*	
05/2004	*272 affiliate*	*18.12*	*2*	*6.70*	*1*
	Nonaffiliate	*8.85*	*1599*	*7.41*	*826*
	Difference	*-9.27*		*0.71*	
06/2004	*272 affiliate*	*9.66*	*5*	*6.85*	*6*
	Nonaffiliate	*9.71*	*1495*	*7.79*	*777*
	Difference	*0.05*		*1.87*	
07/2004	*272 affiliate*	*10.95*	*4*	*7.66*	*11*
	Nonaffiliate	*10.87*	*1785*	*8.86*	*765*
	Difference	*-0.08*		*1.20*	
08/2004	*272 affiliate*	*10.80*	*9*	*5.17*	*15*
	Nonaffiliate	*9.59*	*1811*	*7.87*	*848*
	Difference	*-1.21*		*2.70*	
09/2004	*272 affiliate*	*8.07*	*11*	*9.12*	*9*
	Nonaffiliate	*9.65*	*1925*	*7.29*	*714*
	Difference	*1.58*		*-1.83*	
10/2004	*272 affiliate*	*4.47*	*8*	*6.55*	*7*
	Nonaffiliate	*8.69*	*1360*	*6.29*	*813*
	Difference	*4.22*		*-0.26*	
11/2004	*272 affiliate*	*8.79*	*9*	*6.15*	*11*
	Nonaffiliate	*7.55*	*1341*	*7.45*	*733*
	Difference	*-1.24*		*1.30*	
12/2004	*272 affiliate*	*9.79*	*5*	*13.97*	*4*
	Nonaffiliate	*8.66*	*1531*	*7.08*	*634*
	Difference	*-1.13*		*-6.89*	

The data above illustrates that when making an apples-to-apples comparison of like facilities, the gap between the 272 affiliates and nonaffiliates narrows. In six of the 10 months where the chart above excluding NTF and TOK troubles still showed a longer maintenance interval for nonaffiliates than for 272 affiliates, the data disaggregated between copper and fiber shows that the nonaffiliates had shorter intervals for either copper or fiber When comparing just copper facilities, six of the

10 months for which both 272 affiliates and nonaffiliates had copper facility repairs show that the nonaffiliates experienced shorter durations. In three of 11 months, the nonaffiliates had shorter intervals for fiber facility repairs. In addition, the 272 affiliate repairs are weighted towards fiber facilities, which generally have shorter repair intervals than copper facilities, while nonaffiliates have twice as many copper repairs as fiber repairs. The measures submitted for the audit, which aggregate fiber and copper repairs, mask these distinctions.

The above data further illustrate the differences in volumes between 272 affiliates and nonaffiliates. The above study included only 143 troubles during 11 months for 272 affiliates, versus 27,337 troubles for nonaffiliates during the same period, and in four of the 11 months there were fewer than 10 data points for the 272 affiliates.

This analysis of the measures submitted for the audit is consistent with the fact that Verizon's systems and procedures are designed to treat affiliate and nonaffiliate requests on a non-discriminatory basis. The data do not support a conclusion that the Verizon BOCs/ILECs fulfill requests from unaffiliated entities for exchange access services, including both initial provisioning and subsequent repair, within a period that is longer than the period in which they fulfill similar requests for the same exchange access services to their affiliates."

We also requested of management a linear graph for each state, for each performance measure, for each service, over the entire Engagement Period, depicting the performance for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates. The linear graphs provided by management are included in Attachment A-4.

5. For the randomly selected month of June 2003, we requested the underlying raw data and data file layouts, data documentation, data dictionaries and regulatory guidelines needed to replicate all the metrics for June 2003 selected for all states where Verizon has obtained authority to provide in-region interLATA services. We applied the business rules for all stages of the performance metric computation including definitions, exclusions, calculations, and reporting structure, where appropriate. We developed code to compute the denominator, numerator, performance and standard deviations (where applicable).

   After processing the data we ran comparisons between our replicated results and the results reported by Verizon for June 2003 in all states where Verizon has obtained authority to provide in-region interLATA services. A detailed listing of all differences is included Attachment A-5.

6. We inquired of management and documented how and where the Verizon BOC/ILEC makes available to unaffiliated entities information regarding service intervals in providing service to the section 272 affiliates, BOC and other BOC affiliates and nonaffiliates.

   Management indicated that standard minimum provisioning intervals are used for certain access services when facilities are available and when the customer requests less than a specified maximum quantity of access services. For other access services or for quantities of access services above the maximums specified by Verizon, intervals are negotiated on a case-by-case basis.

Management indicated that a schedule that specifies the access services and quantities of services that can be provided in standard minimum provisioning intervals is made available to all access customers. Management indicated that a copy of this schedule is made available upon request and all carrier customers can obtain this schedule via access to the Verizon wholesale website. Management further indicated that customers can obtain information about these intervals by discussing the schedule with Verizon Account Managers and/or Verizon Customer Service Representatives.

Management also indicated that it does not routinely make available to unaffiliated entities information on service intervals in providing service to section 272 affiliates, other affiliates, and nonaffiliates. Management also indicated that the Verizon BOC/ILEC's procedures address requests from individual entities for BOC service actually experienced interval data on a case-by-case basis. Management indicated that information requests of this nature enter the business through various channels (e.g. account manager, Carrier Account Team Centers (CATCs), legal, or senior management). Once the request is identified Regulatory is notified. Regulatory, in turn, contacts the business owner to aggregate information pertinent to the request using the Verizon BOC/ILEC business rules identified for section 272(e)(1) reporting. Management further indicated that this response, limited to data consistent with the Verizon BOC/ILEC's current obligations under regulation, is provided in a timely manner to the requesting party.

We inspected the Verizon wholesale website and noted a schedule which specifies the access services and quantities of service and corresponding standard minimum provisioning intervals.

<u>OBJECTIVE IX</u>. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has to its affiliate required under section 272 that operates in the same market.

1. We obtained from management a list of exchange access services and facilities with their related tariff rates offered by the Verizon BOC/ILEC to each section 272 affiliate.

   We requested brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of exchange access services and facilities. Management indicated that the informational media used to inform carriers of the availability of these services includes industry letters, Account Team Contacts, Cost Allocation Manual ("CAM"), the Verizon Wholesale Markets website, the Tariffs website, and the section 272 Affiliate website.

   We found that the industry letters were available via the Verizon Wholesale Markets website. We also noted that hyperlinks to the tariffs are available through the Verizon Wholesale Markets and the section 272 affiliates' websites. The hyperlinks lead to the identical web page containing the tariffs. The related tariffs include the rates, terms and conditions for exchange access services and facilities provided by the Verizon BOC/ILEC.

   We inspected all forms of the informational media used to inform carriers of the availability of exchange access services and facilities and noted that the specific services are priced pursuant to the same tariffs as each section 272 affiliate. We noted that both affiliates and non-affiliates are directed to the same websites.

2. We requested and obtained a listing of all invoices for exchange access services and facilities, by Billing Account Number ("BAN"), for the randomly selected month of February 2003. This listing included both invoices rendered by the Verizon BOC/ILECs to the section 272 affiliates, and invoices rendered to other interexchange carriers ("IXCs"). Using a statistically valid sample of 70 invoices for exchange access services and facilities rendered by the Verizon BOC/ILEC to the section 272 affiliates, we obtained and inspected the invoices noting terms and conditions applied and randomly selected one billed item from each invoice to compare against the same service provided and invoiced to an IXC in February 2003.

   Verizon was unable to provide a listing of IXCs which were provided the same billed item in February 2003 as selected from each of the section 272 invoices. For each of the 70 section 272 affiliate invoices selected for testing, and using the listing of all invoices for exchange access services and facilities, we identified all IXC invoices that shared the same BAN/product group number ("PGN") as the section 272 affiliate invoice. We then randomly selected an IXC from the list of other IXC invoices which matched the BAN/PGN. However, for 6 of 70 section 272 affiliate invoices, an IXC was not invoiced in February 2003 with the same BAN/PGN as the corresponding section 272 affiliate. For the remaining 64 invoice pairs, we compared the rates charged for the billed items randomly selected from each section 272 affiliate invoice to a corresponding billed item on the IXC invoice, if such service was provided to the IXC during February 2003. For 27 of the invoice pairs, for the billed items provided to both a section 272 affiliate and an IXC, we noted no differences in rates, terms and conditions reflected on the respective invoices. For the remaining 37 invoice pairs the billed items selected from each section 272 affiliate invoice had no corresponding billed item on the paired IXC invoice. We performed replacement sampling for those billed items on each section 272 invoice, but were still unable to find any matching billed items for the 37 invoice pairs.

3. For the each of the 70 invoices to section 272 affiliates for exchange access services and facilities obtained in Procedure 2 above, we inquired of management to provide the amount recorded by the Verizon BOC/ILEC and paid by each section 272 affiliate. Regarding amounts recorded by the Verizon BOC/ILEC, management indicated that the amount recorded in the Verizon BOC/ILEC general ledger for exchange access services is an aggregate amount entered in batches, and not on a per-invoice basis. Management also indicated that the Carrier Access Billing System ("CABS") for the former Bell Atlantic north, former Bell Atlantic south, and former GTE feed into the Peoplesoft General Ledger. Customer specific information is given at system level, however once it is recorded in the general ledger, only an aggregated number is retained.

We obtained and maintained in the workpapers copies of the Accounts Payable screens/summaries that identify the method of payment for each invoice. We inspected the Accounts Payable screen and traced the amount invoiced to the amount paid by each section 272 affiliate. We noted the following:

- For 51 of the 70 invoices, we noted no differences
- For 19 of the 70 invoices, we noted differences, which occurred for various reasons as documented below:

Invoice #	Invoice Amount	Amount Paid	Difference	Reason per Management
M150329417-03035	$ 4,347.04	$ 4,310.40	$ 36.64	Billing dispute
Y770026052-03035	7,502.26	6,707.37	794.89	Billing dispute
H010055242-03033	5,291.97	5,201.20	90.77	Billing dispute
M020035132-03035	15,001.77	5,682.61	9,319.16	Billing dispute
M149001013-03035	2,647.48	2,625.00	22.48	Billing dispute
Y550019029-03035	130,309.10	123,280.33	7,028.77	Billing dispute
H040035963-03047	64,094.59	63,251.73	842.86	Billing dispute
H040043043-03041	6,407.74	5,830.90	576.84	Billing dispute
K060010105-03056	138,268.36	138,308.63	(40.27)	Overpayment
M020176762-03035	1,334.72	1,172.96	161.76	Billing dispute
M020177831-03035	403.76	392.00	11.76	Billing dispute
M149007020-03035	2,640.87	2,625.00	15.87	Billing dispute
H504322132-03033	26,466.93	26,221.93	245.00	Billing dispute
H500083083-03044	17,500.89	18,583.99	(1,083.10)	Overpayment
M110019516-03037	8,714.20	6,915.40	1,798.80	Billing dispute
Y249034622-03047	99.00	51.00	48.00	Billing dispute
DHC39221122003044	3,170,086.57	3,172,663.36	(2,576.79)	Overpayment
SQC36801052003059	1,440.92	1,365.44	75.48	Billing dispute
DMD33761102003032	214,268.96	214,042.74	226.22	Billing dispute

<u>OBJECTIVE X</u>. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have charged its separate affiliate under section 272, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service.

1. We obtained the list of interLATA services offered by the Verizon BOCs consisting of E911 InterLATA Service ("E911"), Gateway Access Service ("GAS"), International/National Directory Assistance ("IDA/NDA") Service, and Call Management Signaling Services ("CMSS"). We discussed the list with the appropriate Verizon BOC/ILEC employee who indicated that the list was comprehensive. We compared services appearing on the list with the interLATA services disclosed in the Verizon BOC/ILEC's Cost Allocation Manual ("CAM") and noted that Customer Name and Address Service did not appear on the provided list. Verizon explained that Customer Name and Address Service is not offered by Verizon BOCs, only ILECs, and therefore was not included. We compared the non-regulated interLATA services listed in the Verizon BOC/ILEC's CAM with those defined as incidental in section 271(g) of the Act and those interLATA services allowed under FCC Order and noted no differences.

2. Because the population of interLATA services offered by the Verizon BOCs, and not through an affiliate obtained in Procedure 1 above consists of only the four services listed under Procedure 1, we selected all services for our sample to determine whether the Verizon BOC is imputing (charging) to itself an amount for access, switching, and transport. Call Management Signaling Services does not require imputation because the costs associated with CMSS are identified as nonregulated in the Company's accounting records. Therefore, the procedure was only performed for the three interLATA services E911, GAS, and INA/NDA.

   For the three interLATA services, we requested and obtained from management the related analyses and a written narrative indicating that the Verizon BOCs are imputing (charging) to themselves an amount for access, switching, and transport. We also obtained usage details and tariff rates. From the population of the three interLATA services offered by the 11 Verizon BOCs during the Engagement Period, we selected a statistically valid sample of 95 items to match rates used in calculations with tariff rates or the highest rates charged other IXCs. We compared rates used in the imputation studies with the tariff rates. We noted the following:

   <u>E911</u>

   - Channel Termination rate used in the imputation for New York and New England of $302.29 is higher than the current tariff rate of $276.90.
   - Channel Termination rate, Mileage Fixed Rate and the Mileage Rate per Mile used in the imputation for all other states are higher than the current tariff rates as detailed below:

Rates	Channel Termination	Mileage Fixed Charge	Mileage Rate per Mile
Imputation rates	$90.44	$70.34	$1.71
Current rates	$85.10	$59.64	$1.45

<u>GAS</u>

- Link Termination rate was omitted from the calculation for New York and Massachusetts resulting in an undercharge of $67.40 per month for New York and an undercharge of $31.87 per month for Massachusetts.
- Link transport rate used in the imputation for Massachusetts 2004 is higher than the current tariff rate resulting in an overcharge of $31.80 per month.

<u>IDA/NDA</u>

- Transmission Function rate used in the imputation for New York is lower than the current tariff rate resulting in an undercharge of $519.82 per month.
- Transmission rate, the Mileage Fixed Rate and the Mileage Rate per Mile used in the imputation for Maine, New Hampshire and Rhode Island are higher than the current tariff rates as detailed below:

Rates	Transmission Rate	Mileage Fixed Charge	Mileage Rate per Mile
Imputation rates	$62.11	$36.44	$4.24
Current rates	$45.10	$29.08	$3.39

For E911, we requested and obtained copies of the related journal entries and general ledger entries of the Verizon BOC for each of the sampled items. We compared the BOC's imputation study amounts to their journal entries and noted no differences. We traced the amounts of journal entries to the general ledger of the Verizon BOC and noted no differences. The entry is a debit to nonregulated operating revenues (decrease) and a credit to regulated revenues (increase).

For GAS, we requested and obtained copies of the related journal entries and general ledger entries of the Verizon BOC. We compared the BOC's imputation study amounts to their journal entries and noted that the imputation study amount in New York does not match the corresponding journal entry. The imputation amount for four months from November 2002 through February 2003 was $4,072.84; however, the journal entry amount was booked as $22,536.71. The journal description indicated that this amount was to reclass revenue for regulated services from November 2002 through February 2003 and to correct a posting error recorded in October 2002. We traced the amount of journal entries to the general ledger of the Verizon BOC and noted no differences. The entry is a debit to nonregulated operating revenues (decrease) and a credit to regulated revenues (increase).

For IDA/NDA, we requested and obtained copies of the related journal entries and general ledger entries of the Verizon BOC. We compared the BOC's imputation study amounts to their journal entries. Management indicated that NDA service was comprised of two components: NDA Transport Service and NDA DIP Service. For NDA Transport Service, we noted that the quarterly imputation amount of Maine was $6,024.42 whereas the journal entry amount was booked as $10,621.05. For NDA DIP Service, management indicated that Delaware and Virginia December 2004 journal entries were not placed into the financials and the correction journal entries were made in January 2005. We obtained the journal entries and compared to the imputation study amounts. The imputation amount for Virginia was $2,187.14 whereas the journal entry amount was booked as $21,874.14. We traced the amount of journal entry to the general ledger of the Verizon BOC and noted no differences. The entry is a debit to nonregulated operating revenues (decrease) and a credit to regulated revenues (increase).

3. For exchange access services, we obtained the total amount the section 272 affiliates recorded in their books, the amount the section 272 affiliates paid the Verizon BOC/ILEC, and the amount of revenue reflected in the Verizon BOC/ILEC books during the last 12 months of the Engagement Period:

Total amount the section 272 affiliates recorded	The amount the section 272 affiliates paid to the Verizon BOCs/ILECs	The amount of revenue reflected in the Verizon BOC's/ILEC's books
$434,156,257	$384,146,748	$432,826,006

Management indicated that all exchange access services expenses are recorded on GNI's books and are subsequently allocated out to and recorded as expenses on the respective section 272 affiliates' books. We inquired of management and management indicated that the differences between the above amounts can be attributed to billing disputes, timing of invoices and when they are recognized, and accruals established by the section 272 affiliate.

For local exchange services, management was unable to provide the total amount the section 272 affiliates recorded in their books and the amount the section 272 affiliates paid to the Verizon BOC/ILEC during the last 12 months of the Engagement Period. Management indicated the trial balance does not contain accounts that are specific enough to isolate only the local exchange services. We requested the amount of revenue reflected in the Verizon BOC/ILEC books during the last 12 months of the Engagement Period. Management indicated that the information was not available.

We inquired of management how the services billed by the BOC/ILEC are recorded in the general ledger by the BOC/ILEC. Management indicated the following:

> *"Verizon East (fBA) and West (fGTE) records revenue and receivable amounts in its billings systems at a detail customer level. These amounts are summarized at a financial account code level as they pass to the BOC/ILEC's general ledger systems. These amounts are aggregated on the books of the BOC/ILEC's to various FCC USOA accounts. There are internal control functions in place between the billing systems and financial systems to ensure all billed levels are recorded. Receivable collection systems maintain currently due and past due balances from customers regardless of whether the customer is an affiliate or not. There is also matchoff process in place whereby the expenses recorded by the affiliate correspond to the revenue booked by the BOC/ILEC. This process is used to eliminate intercompany revenue and expenses. "*

For unbundled network elements, management indicated that no section 272 affiliates purchased unbundled network elements from the Verizon BOC/ILEC during the last 12 months of the Engagement Period.

<u>OBJECTIVE XI</u>. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have provided any interLATA facilities or services to its interLATA affiliate and made available such services or facilities to all carriers at the same rates and on the same terms and conditions, and allocated the associated costs appropriately.

1. We requested and obtained from management a list of interLATA services and facilities with their related rates offered by the Verizon BOC/ILECs to each section 272 affiliate. Management indicated as it relates to Objective XI of the 2003/2004 section 272 Agreed-upon Audit and section 272 (e)(4) of the Telecommunications Act of 1996, National Directory Assistance ("NDA") to VLD and GSI is the only InterLATA service and facility offered by the BOC/ILEC to the 272 affiliate. Management also indicated the NDA rate for the BOC states is $0.50 per event and the ILEC states will be $0.52 per event.

   We obtained from management and inspected brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of interLATA services and facilities. The brochure listed only NDA service and indicates that the service is available to anyone under the same terms and conditions. The brochure for NDA does not mention rates.

   We compared the list obtained from the Verizon BOC/ILECs to the services found in the obtained information media and noted no differences.

   We compared the list obtained from the Verizon BOC/ILECs to the list of interLATA services obtained in Objective V/VI, Procedure 4 (agreements between the Verizon BOC/ILECs and section 272 affiliates) and noted no differences. We compared the list to the list of interLATA services obtained in Objective X, Procedure 1 (after comparison to the CAM) of all interLATA services provided by the Verizon BOCs. We noted four services found on the list in Objective X, Procedure 1 (after comparison to the CAM) were not listed by management as responses to Objective XI, Procedure 1:

   - Gateway Access Service ("GAS")
   - E911 InterLATA Service ("E911")
   - Customer Name and Address Service
   - Call Management Signaling Services

   We also noted that in the response to Objective XI, Procedure 1, the Directory assistance service is listed as NDA and in the response to Objective X, Procedure 1 (after comparison to the CAM), the Directory assistance service is listed as International/National Directory Assistance Service ("IDA/NDA").

   We noted no interLATA services were offered to any section 272 affiliate which were not covered by any written agreements.

2. In connection with the information media requested in Procedure 1 above, the population of informational media consists of one brochure for the National Directory Assistance service. We obtained and examined the brochure noting no distinction about what is offered to affiliates vs. nonaffiliates. The brochure indicates the service is available to

anyone under the same terms and conditions. The brochure for National Directory Assistance does not mention rates.

3. Management indicated that NDA service rendered by the Verizon BOC/ILEC to VLD was the only interLATA network service and facility rendered by the Verizon BOC/ILEC to a section 272 affiliate from January 3, 2003 to January 2, 2005. We obtained the invoices for WNDA service rendered by the Verizon BOC/ILEC to VLD with invoice dates in the randomly selected months of February 2003, May 2004 and June 2004. Management indicated that no IXCs purchased Wholesale National Directory Assistance service from the Verizon BOC/ILEC during January 3, 2003 through January 2, 2005. Consequently, we could not compare rates, terms, and conditions charged to VLD to those of unaffiliated carriers.

4. For the invoices from the months selected in Procedure 3 above, we were unable to trace the amount invoiced to each section 272 affiliate for interLATA facilities and services to the amount recorded by the Verizon BOC/ILEC in their general ledger. Management indicated that customer specific information is given at system level. Management also indicated that once it is recorded in the general ledger, only an aggregated number is retained. We obtained a written narrative describing how the services billed by the BOC/ILEC are recorded as revenue in the general ledger of the BOC/ILEC. We also obtained the corresponding copies of the Accounts Payable screens/summaries that identifies the method of payment. We inspected the Accounts Payable screen, traced the amount invoiced to the amount paid by each section 272 affiliate for interLATA facilities and services and noted the following differences.

Invoice #	Invoice Date	Invoice Amount	Amount Paid	Difference
05483SV00000302	2/15/03	$ 340,224,55	$ 284,756,25	$ 55,468.30
05483SV00000405	5/15/04	273,943.62	329,411,92	(55,468.30)
05483SV00000406	6/15/04	352,052.27	352,052.27	0.00

Procedures for Subsequent Events

1. We inquired of management whether companies' processes and procedures have changed since the time of execution of these procedures and the end of the engagement period. Management indicated the following:

   "Management has not identified any major changes to processes and procedures that would have changed the way data would have been provided for the audit, since the time of execution of these procedures and the end of the engagement period."

2. We inquired of and obtained written representation from management as to whether they are aware of any events subsequent to the engagement period, but prior to the issuance of the report, that may affect compliance with any of the objectives described in this document. Management indicated the following:

   "Management is not aware of any major events subsequent to the engagement period, but prior to the issuance of the report, that may affect compliance with any of the objectives described in this document not otherwise provided to the auditor during the course of the audit."

Follow-up Procedures on the Prior Engagement

The following matters were noted in the Verizon Communications Inc. section 272 Biennial Agreed Upon Procedures Report dated June 12, 2003:

A. GTE Communication Systems Corporation, a non-regulated Verizon affiliate, acting through its Verizon Logistics division provided repair of plug-in cards for TCI (a former GTE section 272 affiliate) switches located in Canada from the merger closing date through 2002. As part of the repair service, Verizon Logistics tested the plug-in cards on a test switch owned by Verizon California. (Appendix B:2 in the 6/12/03 report, I-3 in this report)

   With regard to whether these matters continued to exist beyond the previous engagement period, reference Appendix A - Objective I, Procedure 3 for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

   "On January 12, 2004 a communication reinforcing the Section 272 obligations was sent to Verizon's offshore affiliates. On February 9, 2004 Verizon adopted a policy statement for its logistics functions to emphasize the need to comply with Section 272 obligations. Subsequent to taking these steps, the FCC eliminated the Section 272 limitation on Operations, Installation and Maintenance on March 30, 2004. Further, effective December 14, 2004 Verizon sold its interest in Telus Corporation."

B. Between January 18, 2001 and January 22, 2002, TCI's Systems Support and Repair organization located in Burnaby, British Columbia, repaired six Verizon GTD5 plug-in cards sent by Verizon Logistics for repair on behalf of Verizon Florida. (Appendix B:3 in the 6/12/03 report, I-3 in this report)

   With regard to whether these matters continued to exist beyond the previous engagement period, reference Appendix A - Objective I, Procedure 3 for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

   "Same as Item A"

C. Two of 20 leases maintained by the section 272 affiliates were not properly recorded as capital leases according to GAAP. (Appendix A, II-2 in the 6/12/03 report, II-3 in this report)

   With regard to whether these matters continued to exist beyond the previous engagement period, reference Appendix A - Objective II, Procedure 3 for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

   "By July 29, 2003, Verizon reviewed existing leases for all domestic 272 affiliates to determine compliance w/FAS13. Other than those identified in the 2001/2002 Section 272 audit, no additional reclassification was required. Verizon instituted procedure in which central accounting in Frazer, PA will perform FAS 13 capital lease test."

D. Verizon disclosed that there were 9 instances of services provided between BOC/ILECs and section 272 affiliates without written affiliate agreements, and 6 instances of services provided between BOC/ILECs and former GTE section 272 affiliates without written affiliate agreements. (Appendix A, V/VI-4 and Appendix B-1, V/VI-4 in the 6/12/03 report, V/VI-4a in this report)

With regard to whether these matters continued to exist beyond the previous engagement period, reference Appendix A - Objective V/VI, Procedure 4a for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

"Verizon agreed to remedial actions in its Consent Decree:

1. *On September 20, 2004, i.e. within 60 days after the Effective Date of the Consent Decree, Verizon sent a targeted communications to employees responsible for establishing services between the 272 Affiliates and the Verizon local exchange carriers and their affiliates instructing them on the need to execute a contract before providing service.*

2. *Starting in the first full calendar year quarter after the Effective Date of the Consent Decree, the Verizon Section 272 contract posting teams will submit a quarterly report to the Verizon Senior Vice President for Regulatory Compliance describing any services in the previous quarter that were provided prior to the effective date of a contract. This report will be completed on or before the 60th day after the close of each quarter. The first report is due March 1, 2005."*

E. Fourteen of 81 agreements, and 7 of 121 amendments, between the BOC/ILECs and section 272 affiliates had discrepancies between the agreement and the information disclosed on the internet postings. (Appendix A, V/VI-5 in the 6/12/03 report, V/VI-5 in this report)

With regard to whether these matters continued to exist beyond the previous engagement period, reference Appendix A - Objective V/VI, Procedure 5 for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

"Verizon agreed to remedial actions in its Consent Decree:

By September 20, 2004, i.e. no later than 60 days after the Effective Date of the Consent Decree, Verizon updated its web posting procedures to include: (1) a template for verifying the content of each posting, with instructions that define fully distributed cost, and (2) a requirement for a second person to review each posting and certify completeness and accuracy when the item is posted. By October 14, 2004, i.e. no later than 90 days after the Effective Date of the Consent Decree Verizon retrained its web posting teams on the revised web posting procedures and implemented the procedure described in (2) of this paragraph requiring review by a second person when posting."

F. Some agreements and some parts of the agreements were not readily available for public inspection at the principal place of business. (Appendix A, V/VI-5 in the 6/12/03 report, V/VI-5 in this report)

With regard to whether these matters continued to exist beyond the previous engagement period, reference Appendix A - Objective V/VI, Procedure 5 for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

"During the 4th quarter 2003 Verizon made available a PC at each Public Inspection site with access to the Internet (for linked tariff pages). Contracts are now scanned in at a central location and the CD-ROMs are distributed quarterly to the public inspection sites. The public inspection coordinators were trained on this process. All actions associated with this updated process were completed by January 31, 2004."

G. Twenty-six new BOC/ILEC agreements/amendments with section 272 affiliates, and 2 new BOC/ILEC agreements with former GTE section 272 affiliates, executed during the audit period were not posted to the internet within the requisite ten days. (Appendix A, V/VI-5 and Appendix B-1, V/VI-5 in the 6/12/03 report, V/VI-5 in this report)

With regard to whether these matters continued to exist beyond the previous engagement period, reference Appendix A - Objective V/VI, Procedure 5 for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

"See Item E"

H. There were instances where the disclosures on the internet were incomplete. (Appendix A, V/VI-5 in the 6/12/03 report, V/VI-5 in this report)

With regard to whether these matters continued to exist beyond the previous engagement period, reference Appendix A - Objective V/VI, Procedure 5 for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

"See Item E"

I. For ten of 87 bills from section 272 affiliates to BOCs, management was unable to locate a corresponding amount in the BOCs' books. (Appendix A, V/VI-7 in the 6/12/03 report, V/VI-8 in this report)

With regard to whether these matters continued to exist beyond the previous engagement period, reference Appendix A - Objective V/VI, Procedure 7 for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

"The specificity requested in the audit procedure is not easily tracked in Verizon's systems. This audit discrepancy was minimal, totaling less than $20,000, and in Verizon's view did not indicate an issue with internal accounting controls. Verizon determined no remediation was needed."

J. Verizon BOCs purchased pre-paid calling cards from VSSI, a section 272 affiliate, without obtaining competitive bids. (Appendix A, VII-1 in the 6/12/03 report, VII-2 in this report)

With regard to whether these matters continued to exist beyond the previous engagement period, reference Appendix A - Objective VII, Procedure 1 for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

"Verizon agreed to remedial actions in its Consent Decree:

By September 21, 2004, i.e. no later than 60 days after the Effective Date of the Consent Decree, the Verizon section 272 affiliates that sell prepaid calling cards adopted procedures to prevent order forms from being issued that would bill charges for prepaid calling cards directly or indirectly to the Verizon BOCs without a contract that was executed pursuant to competitive bidding in accordance with the Verizon BOCs' procurement guidelines. Verizon informed the section 272 employees responsible for filling orders for prepaid calling cards that failure to use the procedures required by this condition will subject them to disciplinary action, with increasing penalties for repeated violations."

K. Verizon BOCs' customer service representatives, in some instances, failed to give inbound customers the required equal access notifications. (Appendix A, VII-6 in the 6/12/03 report, VII-7 in this report)

With regard to whether these matters continued to exist beyond the previous engagement period, reference Appendix A - Objective VII, Procedure 6 for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

"Verizon agreed to remedial actions in its Consent Decree:

1. *By September 21, 2004, i.e. no later than 60 days after the Effective Date of the Consent Decree, Verizon provided refresher instructions to customer service representatives instructing them on compliance with the equal access notification requirements.*

2. *By November 11, 2004, i.e. no later than 120 days after the Effective Date of the Consent Decree, Verizon modified the automated voice response unit to ensure that every customer who is ordering new telephone service or moving service to a new location within Verizon's in-region service territory, is notified before being connected with a service representative that the customer has a choice of long distance providers and that a list of providers is available. Verizon is testing these systems every 180 days after the Effective Date of the Consent Decree to verify that the equal access announcement is heard before the customer is connected with a*

service representative; and submitting the results of the tests to Verizon's Senior Vice President for Regulatory Compliance within 15 days of the test. Requirements to date have been met."

L. For certain measurements for which the auditors attempted to replicate the calculation, discrepancies in the prescribed calculation method were found. (Appendix A, VIII-5 in the 6/12/03 report, VIII-5 in this report)

With regard to whether these matters continued to exist beyond the previous engagement period, reference Appendix A - Objective VIII, Procedure 5 for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

"In preparation for the 2003-2004 audit, these issues were addressed and the results will be noted in the replication procedure."

M. Verizon BOCs had several errors in their imputation calculations, and for several months no imputation amounts were booked. (Appendix A, X-2 in the 6/12/03 report, X-2 in this report)

With regard to whether these matters continued to exist beyond the previous engagement period, reference Appendix A - Objective X, Procedure 2 for the results of the procedure agreed to by the Specified Parties. We inquired as to what action management took to ensure their non-recurrence or improvement, and the effective date of such action. Management indicated the following:

"By May 21, 2003 E911 & NDA journal entries that are originated by the Cost Allocation group were be reviewed for accuracy against the imputation studies prior to submission to Corporate Books for posting to the General Ledger. The GAS (Gateway Access Services) imputation studies & quarterly journal entries were be reviewed by the Cost Allocation group to check for accuracy."

Attachment A-1
Objective V & VI, Procedure 4.a.
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List of Section 272 Affiliate Agreements Terminated During Audit Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
1	GSI	Carrier Services Agreement between VGSI and Verizon North for the provision of private line circuits dated 06/26/03.	6/18/04	Yes	The Carrier Service Agreements were entered into in support of 2003 strike contingency planning. Management stated that the contracts were terminated prematurely "because the strike was averted" and the services to be provided were no longer required.
2	GSI	Carrier Services Agreement between VGSI and Verizon North for the provision of private line circuits dated 07/16/03.	7/7/04	Yes	The Carrier Service Agreements were entered into in support of 2003 strike contingency planning. Management stated that the contracts were terminated prematurely "because the strike was averted" and the services to be provided were no longer required.
3	GSI	TELECOM SVC., Amendment #2	3/31/03	No	
4	GSI	TELECOM SVC., Amendment #3	3/31/03	No	
5	GSI	TELECOM SVC., Amendment #4	3/31/03	No	
6	GSI	Intranet Website Agreement	10/27/03	No	
7	GSI	Carrier Services Agreement	11/14/03	No	
8	GSI	Wholesale Marketing and Sales Agreement	4/10/04	No	
9	GSI	Wholesale Marketing and Sales Agreement - Amendment 1	5/08/04	No	
10	GSI	Service Agreement	10/08/03	No	
11	GSI	Service Agreement Amendment No. 1	10/08/03	No	

List of Section 272 Affiliate Agreements Terminated During Audit Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
12	GSI	Service Agreement Amendment No. 2	10/08/03	No	
13	GSI	Service Agreement Amendment No. 3	10/08/03	No	
14	VLD	Advanced Services Agreement	03/26/03	Yes	Replaced by SS7 Off Net Services Agreement, effective 03/26/03
15	VLD	First Amendment to Advanced Services Agreement	03/26/03	Yes	Replaced by SS7 Off Net Services Agreement, effective 03/26/03
16	VLD	Second Amendment to Advanced Services Agreement	03/26/03	Yes	Replaced by SS7 Off Net Services Agreement, effective 03/26/03
17	VLD	Agreement for Contract Negotiation Services	02/15/04	No	
18	VLD	Agreement For Operational Readiness Testing (ORT) Services	12/31/03	No	
19	VLD	Statement of Work (SOW) for Operation Readiness Testing (ORT) Services	11/30/03	No	
20	VLD	Statement of Work (SOW) No. 2 for Enterprise Advance User Acceptance Testing (UAT)	12/31/03	No	
21	VLD	Agreement for the Provision of 272 Affiliate Contracts on CD ROM	01/23/04	No	
22	VLD	Amendment No. 2 to Billing Services Agreement	04/01/02	Yes	Replaced by Amendment 06 to Billing Services Agreement, effective 04/01/02

List of Section 272 Affiliate Agreements Terminated During Audit Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
23	VLD	Amendment No. 4 to Billing Services Agreement	04/01/02	Yes	Replaced by Amendment 06 to Billing Services Agreement, effective 04/01/02
24	VLD	Amendment No. 6 to Billing Services Agreement	04/01/02	Yes	Replaced by Amendment 08 to the Billing Services Agreement, effective 04/01/02
25	VLD	Memorandum of Understanding Freedom Billing to Billing Services Agreement (MOU)	04/01/02	Yes	Replaced by Amendment 08 to the Billing Services Agreement, effective 04/01/02
26	VLD	Memorandum of Understanding Reconciliation Billing to Billing Services Agreement (MOU)	04/01/02	Yes	Replaced by Amendment 08 to the Billing Services Agreement, effective 04/01/02
27	VLD	Memorandum of Understanding Freedom Billing to Billing Services Agreement – Business (MOU)	04/01/02	Yes	Replaced by Amendment 08 to the Billing Services Agreement, effective 04/01/02
28	VLD	Amendment No. 8 to Billing Services Agreement	06/30/04	Yes	Replaced by Amendment 10 to the Billing Services Agreement, effective 06/30/04
29	VLD	Amendment No. 10 to Billing Services Agreement	07/01/04	Yes	Replaced by Amendment 11 to the Billing Services Agreement, effective 07/01/04
30	VLD	Memorandum of Understanding – Fast Packet	08/01/03	No	
31	VLD	Amendment No. 1 to Memorandum of Understanding – Fast Packet Services	08/01/03	No	
32	VLD	Memorandum of Understanding Service Express	12/31/03	No	
33	VLD	Amendment No. 1 to Memorandum of Understanding Service Express	12/31/03	No	
34	VLD	Services Agreement	06/29/04	No	

List of Section 272 Affiliate Agreements Terminated During Audit Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
35	VLD	Service Agreement (Work Stoppage)	10/08/03	Yes	This agreement was cancelled by a letter dated 10/22/03, effective 10/08/03, which was the date of ratification of the new IBEW and CWA labor agreements (in the former Bell Atlantic and NYNEX territories).
36	VLD	A2mendment No. 1 to Service Agreement (Work Stoppage)	10/08/03	Yes	This agreement was cancelled by a letter dated 10/22/03, effective 10/08/03, which was the date of ratification of the new IBEW and CWA labor agreements (in the former Bell Atlantic and NYNEX territories).
37	VLD	Amendment No. 2 to Service Agreement (Work Stoppage)	07/31/03	Yes	This agreement was cancelled by a letter dated 10/22/03, effective 10/08/03, which was the date of ratification of the new IBEW and CWA labor agreements (in the former Bell Atlantic and NYNEX territories).
38	VLD	Amendment No. 3 to Service Agreement (Work Stoppage)	10/08/03	Yes	This agreement was cancelled by a letter dated 10/22/03, effective 10/08/03, which was the date of ratification of the new IBEW and CWA labor agreements (in the former Bell Atlantic and NYNEX territories).
39	VLD	Trial Agreement	04/17/04	No	
40	GNI	Fast Packet Services – MOU	8/1/03	Yes	Fast Packet Service MOU's were terminated due to reintegration of Verizon Advanced Data company into Verizon core and both services are now covered under MOU Access Services
41	GNI	Fast Packet Services - MOU - Amendment 1	8/1/03	Yes	Fast Packet Service MOU's were terminated due to reintegration of Verizon Advanced Data company into Verizon core and both services are now covered under MOU Access Services
42	GNI	Virginia Special Construction Services # VA2002-21762	9/16/03	No	

List of Section 272 Affiliate Agreements Terminated During Audit Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
43	GNI	Pennsylvania Special Construction Services #PA2002-22938	9/26/03	No	
44	GNI	New York Special Construction Services #2002-236271	11/13/03	No	
45	GNI	Advanced Services Agreement	3/26/03	Yes	Advanced Service Agreements were cancelled and replaced by the SS7 Off-net Agreement
46	GNI	Advanced Services Agreement Amendment 1	3/26/03	Yes	Advanced Service Agreements were cancelled and replaced by the SS7 Off-net Agreement
47	GNI	Advanced Services Agreement Amendment 2 (196b)	3/26/03	Yes	Advanced Service Agreements were cancelled and replaced by the SS7 Off-net Agreement
48	GNI	Florida Special Construction Services FL0303151 197)	3/04/04	No	
49	GNI	Pennsylvania Special Construction Services PA2003-244527 (198)	3/04/04	No	
50	GNI	Indiana Special Construction Services – IN0301704 (202)	6/12/04	No	
51	GNI	Service Agreement (work stoppage) (203)	10/8/03	Yes	Work Stoppage Agreements were not used since no work stoppage occurred
52	GNI	Service Agreement (work stoppage) Amendment 1 (203a)	10/08/03	Yes	Work Stoppage Agreements were not used since no work stoppage occurred
53	GNI	Service Agreement (work stoppage) Amendment 2 (203b)	10/08/03	Yes	Work Stoppage Agreements were not used since no work stoppage occurred
54	GNI	Service Agreement (work stoppage) Amendment 3 (203c)	10/08/03	Yes	Work Stoppage Agreements were not used since no work stoppage occurred
55	GNI	New York Special Construction Services NY2003-258697 (204)	8/14/04	No	
56	GNI	IP/VPN Trial Agreement (210)	4/30/2004	No	
57	GNI	Mentoring Agreement (212)	9/15/03	No	

Attachment A-1
Objective V & VI, Procedure 4.a.

List of Section 272 Affiliate Agreements Terminated During Audit Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
58	GNI	Service Agreement E-web (220)	8/18/04	No	
59	VSSI	Advanced Services Agreement	3/26/03	Yes	Advanced Service Agreements were terminated and replaced by the SS7 Off-Net Services Agreement
60	VSSI	Advanced Services Agreement Amend 1	3/26/03	Yes	Advanced Service Agreements were terminated and replaced by the SS7 Off-Net Services Agreement
61	VSSI	Advanced Services Agreement Amend 2	3/26/03	Yes	Advanced Service Agreements were terminated and replaced by the SS7 Off-Net Services Agreement
62	VSSI	Asset Purchase Agreement	6/19/04	No	
63	VSSI	Assignment of Contracts (Amgen)	6/13/03	No	
64	VSSI	Help Desk Service Agreement	9/07/03	No	
65	VSSI	IP/VPN Trial Agreement	4/30/04	No	
66	VSSI	Interconnection Agreement CA	7/28/04	No	
67	VSSI	Interconnection Agreement CA Amendment 1	7/28/04	No	
68	VSSI	Interconnection Agreement CA Amendment 2	7/28/04	No	
69	VSSI	Interconnection Agreement CA Amendment 3	7/28/04	No	
70	VSSI	Interconnection Resale Agreement TX	6/28/04	No	
71	VSSI	Interconnection Resale Agreement TX Amendment 1	6/28/04	No	
72	VSSI	Long Distance Telecommunications Services Agreement	7/01/03	Yes	Long Distance Telecommunications Service Agreements were cancelled and replaced the VZ Long Distance Telecom Service Agreements
73	VSSI	Long Distance Telecommunications Services Agreement Amendment 1	7/01/03	Yes	Long Distance Telecommunications Service Agreements were cancelled and replaced the VZ Long Distance Telecom Service Agreements

List of Section 272 Affiliate Agreements Terminated During Audit Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
74	VSSI	Long Distance Telecommunications Services Agreement Amendment 2	7/01/03	Yes	Long Distance Telecommunications Service Agreements were cancelled and replaced the VZ Long Distance Telecom Service Agreements
75	VSSI	Long Distance Telecommunications Services Agreement Amendment 3	7/01/03	Yes	Long Distance Telecommunications Service Agreements were cancelled and replaced the VZ Long Distance Telecom Service Agreements
76	VSSI	Long Distance Telecommunications Services Agreement Amendment 4	7/01/03	Yes	Long Distance Telecommunications Service Agreements were cancelled and replaced the VZ Long Distance Telecom Service Agreements
77	VSSI	Long Distance Telecommunications Services Agreement Amendment 5	7/01/03	Yes	Long Distance Telecommunications Service Agreements were cancelled and replaced the VZ Long Distance Telecom Service Agreements
78	VSSI	Long Distance Telecommunications Services Agreement Amendment 6	7/01/03	Yes	Long Distance Telecommunications Service Agreements were cancelled and replaced the VZ Long Distance Telecom Service Agreements
79	VSSI	Long Distance Telecommunications Services Agreement Amendment 7	7/01/03	Yes	Long Distance Telecommunications Service Agreements were cancelled and replaced the VZ Long Distance Telecom Service Agreements
80	VSSI	Long Distance Voice Services Agreement	8/01/03	Yes	Long Distance Voice Services Agreement was terminated due to the reintegration of Verizon Data into Verizon Core and the services were now provided under another VSSI agreement
81	VSSI	Memorandum of Understanding – Data Exchange	4/19/03	No	
82	VSSI	Memorandum of Understanding Fast Packet Services	8/01/03	Yes	MOU Service Agreements were terminated due the reintegration of Verizon Data Services into Verizon Core: services covered under 2 agreements are now covered under the MOU service agreements provided by the ILEC and services covered by 2 of the agreements are no longer needed now

List of Section 272 Affiliate Agreements Terminated During Audit Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
83	VSSI	Memorandum of Understanding-Fast Packet Services Amendment 1	8/1/03	Yes	MOU Service Agreements were terminated due the reintegration of Verizon Data Services into Verizon Core: services covered under 2 agreements are now covered under the MOU service agreements provided by the ILEC and services covered by 2 of the agreements are no longer needed now
84	VSSI	Memorandum of Understanding Service Express	9/25/03	Yes	MOU Service Agreements were terminated due the reintegration of Verizon Data Services into Verizon Core: services covered under 2 agreements are now covered under the MOU service agreements provided by the ILEC and services covered by 2 of the agreements are no longer needed now
85	VSSI	Memorandum of Understanding Service Express – Amendment 1	9/25/03	Yes	MOU Service Agreements were terminated due the reintegration of Verizon Data Services into Verizon Core: services covered under 2 agreements are now covered under the MOU service agreements provided by the ILEC and services covered by 2 of the agreements are no longer needed now
86	VSSI	Professional Services Agreement	6/13/04	No	
87	VSSI	Service Agreement - EWeb	8/18/04	No	
88	VSSI	Service Agreement (Work Stoppage)	10/08/03	Yes	Work Stoppage Agreements were terminated due since no work stoppage occurred
89	VSSI	Service Agreement (Work Stoppage) Amendment 1	10/08/03	Yes	Work Stoppage Agreements were terminated due since no work stoppage occurred
90	VSSI	Service Agreement (Work Stoppage) Amendment 2	10/08/03	Yes	Work Stoppage Agreements were terminated due since no work stoppage occurred
91	VSSI	Service Agreement (Work Stoppage) Amendment 3	10/08/03	Yes	Work Stoppage Agreements were terminated due since no work stoppage occurred
92	VSSI	Subcontract Agreement & Custom Work Order	1/21/03	No	

List of Section 272 Affiliate Agreements Terminated During Audit Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
93	VSSI	Telemarketing Agreement	10/15/03	No	
94	VSSI	Vendor Services Agreement	7/31/03	Yes	Vendor Service Agreements/Amendments were terminated because VSSI was removed as a party from the agreement on 7/31/2003
95	VSSI	Vendor Services Agreement - Amendment 1	7/31/03	Yes	Vendor Service Agreements/Amendments were terminated because VSSI was removed as a party from the agreement on 7/31/2003
96	VES	Advanced Services Agreement	03/26/03	Yes	Advanced Service Agreements were terminated and replaced by the SS7 Off-Net Services Agreement
97	VES	First Amendment to Advanced Services Agreement	03/26/03	Yes	Advanced Service Agreements were terminated and replaced by the SS7 Off-Net Services Agreement
98	VES	Second Amendment to Advanced Services Agreement	03/26/03	Yes	Advanced Service Agreements were terminated and replaced by the SS7 Off-Net Services Agreement
99	VES	Agreement For Operational Readiness Testing (ORT) Services	12/31/03	No	
100	VES	Statement of Work for Operation Readiness Testing (ORT) Services	11/30/03	No	
101	VES	Statement of Work No. 2 for Enterprise Advance User Acceptance Testing (UAT)	12/31/03	No	
102	VES	Amendment No. 2 to Billing Services Agreement	04/01/02	Yes	MOU's for Billing to Billing Services and 5 amendments to Billing Services were terminated and replaced by Amendments 6, 8, 10, and 11 of the Billing Services Agreement
103	VES	Amendment No. 4 to Billing Services Agreement	04/01/02	Yes	MOU's for Billing to Billing Services and 5 amendments to Billing Services were terminated and replaced by Amendments 6, 8, 10, and 11 of the Billing Services Agreement

List of Section 272 Affiliate Agreements Terminated During Audit Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
104	VES	Amendment No. 6 to Billing Services Agreement	04/01/02	Yes	MOU's for Billing to Billing Services and 5 amendments to Billing Services were terminated and replaced by Amendments 6, 8, 10, and 11 of the Billing Services Agreement
105	VES	MOU Freedom Billing to Billing Services Agreement (MOU)	04/01/02	Yes	MOU's for Billing to Billing Services and 5 amendments to Billing Services were terminated and replaced by Amendments 6, 8, 10, and 11 of the Billing Services Agreement
106	VES	MOU Reconciliation Billing to Billing Services Agreement (MOU)	04/01/02	Yes	MOU's for Billing to Billing Services and 5 amendments to Billing Services were terminated and replaced by Amendments 6, 8, 10, and 11 of the Billing Services Agreement
107	VES	MOU Freedom Billing to Billing Services Agreement – Business (MOU)	04/01/02	Yes	MOU's for Billing to Billing Services and 5 amendments to Billing Services were terminated and replaced by Amendments 6, 8, 10, and 11 of the Billing Services Agreement
108	VES	Amendment No. 8 to Billing Services Agreement	06/30/04	Yes	MOU's for Billing to Billing Services and 5 amendments to Billing Services were terminated and replaced by Amendments 6, 8, 10, and 11 of the Billing Services Agreement
109	VES	Amendment No. 10 to Billing Services Agreement	07/01/04	Yes	MOU's for Billing to Billing Services and 5 amendments to Billing Services were terminated and replaced by Amendments 6, 8, 10, and 11 of the Billing Services Agreement
110	VES	Memorandum of Understanding – Fast Packet	08/01/03	No	
111	VES	Amendment No. 1 to Memorandum of Understanding – Fast Packet Services	08/01/03	No	

List of Section 272 Affiliate Agreements Terminated During Audit Test Period					
No.	section 272 Affiliate	Agreement Description	Termination Date	Terminated Prior to Contracted Termination Date	Reason for Termination Prior to Contracted Termination Date
112	VES	Memorandum of Understanding Service Express	12/31/03	No	
113	VES	Amendment No. 1 to Memorandum of Understanding Service Express	12/31/03	No	
114	VES	Service Agreement (Work Stoppage)	10/08/03	Yes	Work Stoppage Service Agreements were terminated with the ratification of the IBEW and CWA labor agreements
115	VES	Amendment No. 1 to Service Agreement (Work Stoppage)	10/08/03	Yes	Work Stoppage Service Agreements were terminated with the ratification of the IBEW and CWA labor agreements
116	VES	Amendment No. 2 to Service Agreement (Work Stoppage)	10/08/03	Yes	Work Stoppage Service Agreements were terminated with the ratification of the IBEW and CWA labor agreements
117	VES	Amendment No. 3 to Service Agreement (Work Stoppage)	10/08/03	Yes	Work Stoppage Service Agreements were terminated with the ratification of the IBEW and CWA labor agreements
118	VES	Services Agreement	06/29/04	No	
119	VES	Trial Agreement	4/17/04	No	
120	TCI/TCQI	Amendment to Memorandum of Understanding Equipment Purchases	6/28/02	No	
121	TCI/TCQI	Agreement for 411 Redirect Directory Assistance Services	8/21/03	Yes	Redirect Directory Service Assistance Agreement that was terminated prematurely since it was executed in the event of a work stoppage

Attachment A-2
Objective V & VI, Procedure 5
Page 1 of 2

Objectives V & VI; Procedure 5
Summary of Web Posting Completeness and Accuracy Results

Form 2 - These results would be developed based on the Form 1 results for each sample.

Col. A	Col. B	Col. C		Col. D	Col. E
	Accuracy of Web Postings			Completeness of Web Posting	
	Total Number of Items Checked in Sample	Errors Found in Sample		Total Number of Items Checked in Sample	Errors Found in Sample
Sample # 1	79	0		80	0
Sample # 2	131	0		118	0
Sample # 3	14	0		15	0
Sample # 4	16	0		16	0
Sample # 5	22	0		7	0
Sample # 6	28	0		13	0
Sample # 7	22	0		24	0
Sample # 8	2,838	0		2,831	0
Sample # 9	21	0		15	0
Sample # 10	205	0		199	0
Sample # 11	46	0		34	0
Sample # 12	23	0		17	0
Sample # 13	1,014	0		1,008	0
Sample # 14	133	0		127	0
Sample # 15	153	0		147	0
Sample # 16	37	0		28	0
Sample # 17	46	0		31	0
Sample # 18	15	0		17	0
Sample # 19	14	0		9	0
Sample # 20	19	0		23	0
Sample # 21	728	0		792	0
Sample # 22	871	0		865	0
Sample # 23	8	0		13	0
Sample # 24	19	0		21	0
Sample # 25	8	0		12	0
Sample # 26	149	0		133	0
Sample # 27	4	0		6	0
Sample # 28	23	0		22	0
Sample # 29	102	0		95	0
Sample # 30	3,604	0		3,602	0
Sample # 31	33	0		30	0
Sample # 32	141	0		141	0
Sample # 33	21	0		22	0
Sample # 34	35	0		18	0
Sample # 35	8	0		7	0
Sample # 36	90	0		83	0

Objectives V & VI; Procedure 5
Summary of Web Posting Completeness and Accuracy Results

Form 2 - These results would be developed based on the Form 1 results for each sample.

Col. A	**Col. B**	**Col. C**		**Col. D**	**Col. E**
	Accuracy of Web Postings			Completeness of Web Posting	
	Total Number of Items Checked in Sample	Errors Found in Sample		Total Number of Items Checked in Sample	Errors Found in Sample
Sample # 37	128	0		112	0
Sample # 38	23	0		7	0
Sample # 39	40	0		25	0
Sample # 40	431	0		415	0
Sample # 41	40	0		25	0
Sample # 42	27	0		28	0
Sample # 43	86	0		79	0
Sample # 44	184	0		169	0
Sample # 45	26	0		16	0
Sample # 46	24	0		24	0
Sample # 47	6	0		7	0
Sample # 48	782	0		766	0
Sample # 49	24	0		24	0
Sample # 50	41	0		35	0
Sample # 51	41	0		35	0
Totals	12,623	0		12,388	0
Error Rate as a Percentage		0.00%			0.00%

Differences Noted in Performance Measurement Results Replication – June 2003												
State	Metric	Service	Customer	Verizon Reported Denominator	Replicated Denominator	Denominator Match?	Verizon Reported Performance	Replicated Performance	Performance Match?	Verizon Reported Std Dev	Replicated Std Dev	Std Dev Match?
CT	pic		#ALL	829	829	YES	2.08	2.08	YES	1.6	1.54	NO

LEGEND:

Metric		Customer	
foc	Firm Order Confirmation Response Time	#272	272-affiliate Aggregate
install_int	Average Installation Interval	#VZ	Verizon ILEC & Other (non-272) Affiliate Aggregate
install_pcnt	% Installation Commitments Met	#ALL	Non-affiliate Aggregate
troubles	Total Trouble Reports		
repair_int	Average Repair Interval		
pic	Average Time of PIC Change		

Differences Noted in Performance Measurement Results Replication – June 2003												
State	Metric	Service	Customer	Verizon Reported Denominator	Replicated Denominator	Denominator Match?	Verizon Reported Performance	Replicated Performance	Performance Match?	Verizon Reported Std Dev	Replicated Std Dev	Std Dev Match?
DC	install_int	OCN	#ALL	4	4	YES	51.25	51.25	YES	12.7	62.52	NO
DC	pic		#272	2	2	YES	0.58	0.59	NO	0.08	0.08	YES
DC	repair_int	DS1	#ALL	394	394	YES	3.96	3.95	NO	4.9	4.9	YES

LEGEND:

Metric	
foc	Firm Order Confirmation Response Time
install_int	Average Installation Interval
install_pcnt	% Installation Commitments Met
troubles	Total Trouble Reports
repair_int	Average Repair Interval
pic	Average Time of PIC Change

Customer	
#272	272-affiliate Aggregate
#VZ	Verizon ILEC & Other (non-272) Affiliate Aggregate
#ALL	Non-affiliate Aggregate

Differences Noted in Performance Measurement Results Replication – June 2003												
State	Metric	Service	Customer	Verizon Reported Denominator	Replicated Denominator	Denominator Match?	Verizon Reported Performance	Replicated Performance	Performance Match?	Verizon Reported Std Dev	Replicated Std Dev	Std Dev Match?
DE	repair_int	DS1	#272	2	2	YES	0.44	0.43	NO	0.26	0.26	YES

LEGEND:

Metric	
foc	Firm Order Confirmation Response Time
install_int	Average Installation Interval
install_pcnt	% Installation Commitments Met
troubles	Total Trouble Reports
repair_int	Average Repair Interval
pic	Average Time of PIC Change

Customer	
#272	272-affiliate Aggregate
#VZ	Verizon ILEC & Other (non-272) Affiliate Aggregate
#ALL	Non-affiliate Aggregate

Differences Noted in Performance Measurement Results Replication – June 2003												
State	Metric	Service	Customer	Verizon Reported Denominator	Replicated Denominator	Denominator Match?	Verizon Reported Performance	Replicated Performance	Performance Match?	Verizon Reported Std Dev	Replicated Std Dev	Std Dev Match?
MA	install_int	FGD	#ALL	16	16	YES	15.56	15.63	NO	7.94	10.52	NO
MA	install_pcnt	DS1	#ALL	1036	1036	YES	96	95.9	NO			YES
MA	repair_int	DS0	#ALL	205	205	YES	4.75	4.75	YES	5.77	5.78	NO
MA	troubles	DS3	#ALL	5	4	NO	5	4	NO			YES
MA	troubles	DS3	#VZ	5	2	NO	5	2	NO			YES

LEGEND:

Metric	
foc	Firm Order Confirmation Response Time
install_int	Average Installation Interval
install_pcnt	% Installation Commitments Met
troubles	Total Trouble Reports
repair_int	Average Repair Interval
pic	Average Time of PIC Change

Customer	
#272	272-affiliate Aggregate
#VZ	Verizon ILEC & Other (non-272) Affiliate Aggregate
#ALL	Non-affiliate Aggregate

Differences Noted in Performance Measurement Results Replication – June 2003												
State	Metric	Service	Customer	Verizon Reported Denominator	Replicated Denominator	Denominator Match?	Verizon Reported Performance	Replicated Performance	Performance Match?	Verizon Reported Std Dev	Replicated Std Dev	Std Dev Match?
MD	install_int & install_pcnt	FGD	#ALL	17	16	NO	15.88	16.69	NO	8.96	8.6	NO
MD	troubles & repair_int	FGD	#ALL	9	7	NO	1.22	1.31	NO	0.91	0.99	NO

LEGEND:

Metric	
foc	Firm Order Confirmation Response Time
install_int	Average Installation Interval
install_pcnt	% Installation Commitments Met
troubles	Total Trouble Reports
repair_int	Average Repair Interval
pic	Average Time of PIC Change

Customer	
#272	272-affiliate Aggregate
#VZ	Verizon ILEC & Other (non-272) Affiliate Aggregate
#ALL	Non-affiliate Aggregate

Differences Noted in Performance Measurement Results Replication – June 2003												
State	Metric	Service	Customer	Verizon Reported Denominator	Replicated Denominator	Denominator Match?	Verizon Reported Performance	Replicated Performance	Performance Match?	Verizon Reported Std Dev	Replicated Std Dev	Std Dev Match?
NH	troubles & repair_int	FGD	#272		1	NO		3.9	NO			YES

LEGEND:

Metric		Customer	
foc	Firm Order Confirmation Response Time	#272	272-affiliate Aggregate
install_int	Average Installation Interval	#VZ	Verizon ILEC & Other (non-272) Affiliate Aggregate
install_pcnt	% Installation Commitments Met	#ALL	Non-affiliate Aggregate
troubles	Total Trouble Reports		
repair_int	Average Repair Interval		
pic	Average Time of PIC Change		

Differences Noted in Performance Measurement Results Replication – June 2003												
State	Metric	Service	Customer	Verizon Reported Denominator	Replicated Denominator	Denominator Match?	Verizon Reported Performance	Replicated Performance	Performance Match?	Verizon Reported Std Dev	Replicated Std Dev	Std Dev Match?
NJ	install_int & install_pcnt	FGD	#272	9		NO	20.67		NO	2.35		NO
NJ	install_int & install_pcnt	FGD	#ALL	25	18	NO	15.44	5.83	NO	25.62	3.13	NO
NJ	repair_int	DS0	#272	4	4	YES	1.31	1.31	YES	0.85	0.86	NO
NJ	troubles & repair_int	FGD	#ALL	33	31	NO	2.73	2.49	NO	2.9	2.47	NO

LEGEND:

Metric	
foc	Firm Order Confirmation Response Time
install_int	Average Installation Interval
install_pcnt	% Installation Commitments Met
troubles	Total Trouble Reports
repair_int	Average Repair Interval
pic	Average Time of PIC Change

Customer	
#272	272-affiliate Aggregate
#VZ	Verizon ILEC & Other (non-272) Affiliate Aggregate
#ALL	Non-affiliate Aggregate

Differences Noted in Performance Measurement Results Replication – June 2003												
State	Metric	Service	Customer	Verizon Reported Denominator	Replicated Denominator	Denominator Match?	Verizon Reported Performance	Replicated Performance	Performance Match?	Verizon Reported Std Dev	Replicated Std Dev	Std Dev Match?
NY	install_int & install_pcnt	FGD	#272	6	2	NO	41.67	35	NO	6.31	1.41	NO
NY	install_int & install_pcnt	FGD	#ALL	58	43	NO	36.41	28.28	NO	20.97	12.54	NO
NY	troubles & repair_int	FGD	#ALL	69	68	NO	3.09	3.08	NO	3.64	3.67	NO

LEGEND:

Metric	
foc	Firm Order Confirmation Response Time
install_int	Average Installation Interval
install_pcnt	% Installation Commitments Met
troubles	Total Trouble Reports
repair_int	Average Repair Interval
pic	Average Time of PIC Change

Customer	
#272	272-affiliate Aggregate
#VZ	Verizon ILEC & Other (non-272) Affiliate Aggregate
#ALL	Non-affiliate Aggregate

Differences Noted in Performance Measurement Results Replication – June 2003												
State	Metric	Service	Customer	Verizon Reported Denominator	Replicated Denominator	Denominator Match?	Verizon Reported Performance	Replicated Performance	Performance Match?	Verizon Reported Std Dev	Replicated Std Dev	Std Dev Match?
PA (fBA)	install_int & install_pcnt	FGD	#ALL	20	19	NO	16.65	16.21	NO	7.14	7.18	NO
PA (fBA)	install_pcnt	DS1	#ALL	1850	1850	YES	94	93.9	NO			YES
PA (fBA)	troubles & repair_int	FGD	#ALL	4	1	NO	1.35	0.45	NO	0.96		NO

LEGEND:

Metric	
foc	Firm Order Confirmation Response Time
install_int	Average Installation Interval
install_pcnt	% Installation Commitments Met
troubles	Total Trouble Reports
repair_int	Average Repair Interval
pic	Average Time of PIC Change

Customer	
#272	272-affiliate Aggregate
#VZ	Verizon ILEC & Other (non-272) Affiliate Aggregate
#ALL	Non-affiliate Aggregate

Differences Noted in Performance Measurement Results Replication – June 2003												
State	Metric	Service	Customer	Verizon Reported Denominator	Replicated Denominator	Denominator Match?	Verizon Reported Performance	Replicated Performance	Performance Match?	Verizon Reported Std Dev	Replicated Std Dev	Std Dev Match?
PA (fGTE)	pic		#ALL	12401	12401	YES	4.23	4.25	NO	1.05	1.04	NO
PA (fGTE)	repair_int	DS1	#ALL	110	110	YES	5.21	5.22	NO	4.72	4.72	YES

LEGEND:

Metric	
foc	Firm Order Confirmation Response Time
install_int	Average Installation Interval
install_pcnt	% Installation Commitments Met
troubles	Total Trouble Reports
repair_int	Average Repair Interval
pic	Average Time of PIC Change

Customer	
#272	272-affiliate Aggregate
#VZ	Verizon ILEC & Other (non-272) Affiliate Aggregate
#ALL	Non-affiliate Aggregate

Differences Noted in Performance Measurement Results Replication – June 2003												
State	Metric	Service	Customer	Verizon Reported Denominator	Replicated Denominator	Denominator Match?	Verizon Reported Performance	Replicated Performance	Performance Match?	Verizon Reported Std Dev	Replicated Std Dev	Std Dev Match?
RI	install_int & install_pcnt	FGD	#ALL	2	1	NO	20.5	25	NO	6.36		NO

LEGEND:

Metric		Customer	
foc	Firm Order Confirmation Response Time	#272	272-affiliate Aggregate
install_int	Average Installation Interval	#VZ	Verizon ILEC & Other (non-272) Affiliate Aggregate
install_pcnt	% Installation Commitments Met	#ALL	Non-affiliate Aggregate
troubles	Total Trouble Reports		
repair_int	Average Repair Interval		
pic	Average Time of PIC Change		

Differences Noted in Performance Measurement Results Replication – June 2003												
State	Metric	Service	Customer	Verizon Reported Denominator	Replicated Denominator	Denominator Match?	Verizon Reported Performance	Replicated Performance	Performance Match?	Verizon Reported Std Dev	Replicated Std Dev	Std Dev Match?
VA	install_int & install_pcnt	FGD	#ALL	33	32	NO	17.33	17.25	NO	9.27	9.4	NO
VA	troubles & repair_int	FGD	#ALL	22	17	NO	4.3	5.29	NO	6.2	6.75	NO

LEGEND:

Metric	
foc	Firm Order Confirmation Response Time
install_int	Average Installation Interval
install_pcnt	% Installation Commitments Met
troubles	Total Trouble Reports
repair_int	Average Repair Interval
pic	Average Time of PIC Change

Customer	
#272	272-affiliate Aggregate
#VZ	Verizon ILEC & Other (non-272) Affiliate Aggregate
#ALL	Non-affiliate Aggregate

Differences Noted in Performance Measurement Results Replication – June 2003												
State	Metric	Service	Customer	Verizon Reported Denominator	Replicated Denominator	Denominator Match?	Verizon Reported Performance	Replicated Performance	Performance Match?	Verizon Reported Std Dev	Replicated Std Dev	Std Dev Match?
VT	repair_int	DS1	#VZ	3	3	YES	2.35	2.36	NO	2.93	2.93	YES

LEGEND:

Metric	
foc	Firm Order Confirmation Response Time
install_int	Average Installation Interval
install_pcnt	% Installation Commitments Met
troubles	Total Trouble Reports
repair_int	Average Repair Interval
pic	Average Time of PIC Change

Customer	
#272	272-affiliate Aggregate
#VZ	Verizon ILEC & Other (non-272) Affiliate Aggregate
#ALL	Non-affiliate Aggregate

Differences Noted in Performance Measurement Results Replication – June 2003												
State	Metric	Service	Customer	Verizon Reported Denominator	Replicated Denominator	Denominator Match?	Verizon Reported Performance	Replicated Performance	Performance Match?	Verizon Reported Std Dev	Replicated Std Dev	Std Dev Match?
WV	install_int	FGD	#ALL	8	8	YES	16.5	16.5	YES	6.49	12.43	NO
WV	pic		#272	122	122	YES	0.88	0.88	YES	0.35	0.36	NO

LEGEND:

Metric		Customer	
foc	Firm Order Confirmation Response Time	#272	272-affiliate Aggregate
install_int	Average Installation Interval	#VZ	Verizon ILEC & Other (non-272) Affiliate Aggregate
install_pcnt	% Installation Commitments Met	#ALL	Non-affiliate Aggregate
troubles	Total Trouble Reports		
repair_int	Average Repair Interval		
pic	Average Time of PIC Change		

See underlying General Standard Procedures

JOINT FEDERAL/STATE OVERSIGHT TEAM
FOR
VERIZON COMMUNICATIONS

GENERAL STANDARD PROCEDURES FOR BIENNIAL AUDITS REQUIRED UNDER SECTION 272 OF THE COMMUNICATIONS ACT OF 1934, AS AMENDED

FOR THE PERIOD JANUARY 3, 2003 THROUGH JANUARY 2, 2005

Final Procedures – May 9, 2005

JOINT FEDERAL/STATE OVERSIGHT TEAM
FOR

VERIZON COMMUNICATIONS

GENERAL STANDARD PROCEDURES
FOR
BIENNIAL AUDITS
REQUIRED UNDER SECTION 272
OF THE
COMMUNICATIONS ACT OF 1934, AS AMENDED

FOR THE PERIOD JANUARY 3, 2003 THROUGH JANUARY 2, 2005

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VERIZON COMMUNICATIONS
BIENNIAL ENGAGEMENT PROCESS

INTRODUCTION

Background

1. Section 272(a) of the Communications Act of 1934, as amended (the Act), requires that a Bell Operating Company (BOC) set up one or more separate affiliates before engaging in manufacturing activities, in-region interLATA services, and interLATA information services. For interLATA information services, this requirement expired on February 8, 2000 in accordance with the Act. Before engaging in the provision of in-region interLATA services, a BOC or an affiliate of the BOC must meet the requirements of section 271 of the Act and must receive approval by the Federal Communications Commission (FCC). A BOC that is required to operate a separate affiliate under section 272 must obtain and pay for a joint Federal/State audit every two years.[5]

2. The Commission adopted rules to implement the section 272(d) biennial audit requirement. *See Accounting Safeguards Order* at paras. 197-205; *see also* 47 C.F.R. § 53.209-.213. The Commission's part 53 rules and accompanying orders govern the conduct of the section 272(d) biennial audit. As stated in the Commission's part 53 rules, the purpose of the section 272(d) biennial audit is to determine whether the BOC and its section 272 affiliates have operated in accordance with the accounting and non-accounting safeguards required by section 272 of the Act and the Commissions rules. 47 C.F.R. § 53.209(b) (listing the specified compliance requirements of the section 272(d) biennial audit). In addition to specifying the audit requirements, the Commission's rules provide for the establishment of a Federal/State joint audit team that is authorized to oversee the conduct of the audit from the planning stage to its completion and to "direct the independent auditor to take any actions necessary to ensure compliance with the audit requirements [in 47 C.F.R. § 53.209(b)]." 47 C.F.R. § 53.209(d). Although the section 272(d) biennial audit is to be conducted by an independent auditor, the Federal/State joint audit team is also responsible for ensuring that the audit meets the objectives stated in the Commission's rules and orders. 47 C.F.R. §§ 53.209(d) (stating that the Federal/State joint audit team is responsible for "overseeing the planning of the audit"); 53.211(b) (requiring the Federal/State joint audit team to review the audit requirements and authorizing the Federal/State joint audit team to modify the audit program); 53.211(c) (authorizing the Federal/State joint audit team to approve the audit requirements and program); 53.211(d). In accordance with Statements on Standards For Attestation Engagements, 10, Paragraph 1.03: "When a practitioner undertakes an attest engagement for the benefit of a government body or agency and agrees to follow specified government standards, guides,

[5] 47 U.S.C. § 272(d).

procedures, statutes, rules and regulations, the practitioner is obliged to follow those governmental requirements as well as applicable attestation standards."

3. Working pursuant to delegated authority, the Federal/State joint audit team elected to use the Agreed-Upon Procedures (AUP) form of attestation engagement to meet the objectives specified in the Commission's rules, *i.e.*, to determine whether the BOC and its section 272 affiliates complied with the relevant accounting and non-accounting safeguards. The American Institute of Certified Public Accountants (AICPA) defines an AUP engagement as "one in which a practitioner is engaged by a client to issue a report of findings based on specific procedures performed on subject matter."[6] For the purposes of planning this AUP engagement and developing the appropriate audit procedures, the "specified parties" consist of the Federal/State joint audit team ("Oversight Team" or "Joint Oversight Team") and the company responsible for obtaining and paying for the section 272(d) biennial audits (*i.e.*, Verizon). The Oversight Team will be comprised of members from the FCC and members of the state commissions who have jurisdiction over Verizon in their respective states[7] and who have chosen to participate in the Biennial Audit and have either signed a Protective Agreement or the State commission has promulgated a Protective Order.

The Oversight Team is responsible for reviewing the conduct of the engagement and, after having apprised Verizon of their intention, for directing the practitioner to take such action as the team finds necessary to achieve each audit objective. Consistent with part 53.209(d) of the Commission's rules, the Oversight Team may direct the independent auditor to take any actions necessary to ensure compliance with the audit requirements of part 53.209(b) as reflected in letters or orders issued by the Bureau staff and served on Verizon. If Verizon disagrees with the Oversight Team's directions, the Oversight Team will issue a written decision describing the specific directions to which Verizon objects. Verizon may file a petition for reconsideration of that decision with the Enforcement Bureau pursuant to part 1.106 of the Commission's rules. The specified parties agree that the independent auditor shall implement the directions of the Oversight Team ten business days after such decision is issued if Verizon has not filed a petition for reconsideration. The specified parties further agree that if the Enforcement Bureau denies any part of Verizon's petition for reconsideration, the independent auditor shall immediately implement the Enforcement Bureau's decision.

Verizon may also file an Application for Review of the Enforcement Bureau's decision pursuant to part 1.115 of the Commission's rules. The independent auditor shall nonetheless implement the Enforcement Bureau's decision even if Verizon files an Application for Review of that decision. Should the Commission grant any part of Verizon's application for review, the independent auditor shall modify its procedures accordingly. In the event that Verizon's application for review has not been acted on by the date of the filing of the final biennial audit

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[6] Statement on Standards for Attestation Engagements (SSAE) 10, paragraph 2.03, published by the American Institute of Certified Public Accountants.
[7] Connecticut, District of Columbia, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, Virginia, and West Virginia.

report, the results of any such affected procedures shall be omitted from the final biennial audit report until such time as the Commission issues a final decision; however, the issues under review shall be disclosed in the final biennial audit report as matters subject to an application for review with the Commission that have not yet been acted upon.

The text below provides the requirements for the engagement as listed in part 53.209(b) of the FCC rules and indicates the nature, timing, and extent of the AUP for each requirement. It should be noted that AUP engagements are not based on the concept of materiality, therefore, the practitioner must report all results in the form of findings from application of the agreed upon procedures.

COMPLIANCE REQUIREMENTS

4. The requirements that will be covered in the Biennial Audit are contained in 47 U.S.C. Section 272(b), (c), and (e) of the Communications Act of 1934, as amended, and in 47 C.F.R. Part 53.209(b) of the FCC rules and regulations. Below is a listing of those requirements:

Structural Requirements

The separate affiliate required under section 272 of the Act:

I. Shall operate independently from the Bell operating company;

II. Shall maintain books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell operating company;

III. Shall have officers, directors, and employees that are separate from those of the Bell operating company;

IV. May not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell operating company;

Accounting Requirements

The separate affiliate required under section 272 of the Act:

V. Shall conduct all transactions with the Bell operating company on an arm's length basis with the transactions reduced to writing and available for public inspection.

The Bell operating company:

VI. Shall account for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

Nondiscrimination Requirements

The Bell operating company:

VII. May not discriminate between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards;

VIII. Shall fulfill any requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates;

IX. Shall not provide any facilities, services, or information concerning its provision of exchange access to the section 272 affiliate unless such facilities, services, or information are made available to other providers of interLATA services in that market on the same terms and conditions;

X. Shall charge its separate affiliate under section 272, or impute to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service;

XI. May provide any interLATA or intraLATA facilities or services to its interLATA affiliate if such services or facilities are made available to all carriers at the same rates and on the same terms and conditions, and so long as the costs are appropriately allocated.

Related FCC Dockets

5. These requirements have been clarified and expanded upon in several FCC proceedings. These proceedings are subject to further modification in subsequent FCC orders, or in orders on reconsideration. Below is a list of FCC orders related to the above requirements:

CC Docket No. 96-149, In the Matter of Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended; *First Report and Order and Further Notice of Proposed Rulemaking*; Released December 24, 1996. Other releases under this docket were issued on February 19, 1997; June 24, 1997; June 10, 1998; September 3, 1999; April 27, 2001.

CC Docket No. 96-150, In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996; *Report and Order*; Released December 24, 1996. Another release under this docket was issued on June 30, 1999.

CC Docket No. 96-98, In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; *First Report and Order*; Released August 8, 1996 (First Interconnection Order); *Second Report and Order and Memorandum Opinion and Order*; Released August 8, 1996 (Second Interconnection Order).

CC Docket No. 96-115, In the Matter of Implementation of the Telecommunications Act of 1996: Telecommunications Carriers' Use of Customer Proprietary Network Information and Other Customer Information; *Second Report and Order and Further Notice of Proposed Rulemaking*; Released February 26, 1998.

CC Docket No. 00-199, In the Matter of 2000 Biennial Regulatory Review -- Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2; *Report and Order and Further Notice of Proposed Rulemaking*; Released November 5, 2001.

CC Docket No. 98-121, In the Matter of Application of BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc., for Provision of In-Region, InterLATA Services in Louisiana; *Memorandum Opinion and Order*; Released October 13, 1998.

WC Docket No. 02-112, In the Matter of Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements; *Memorandum Opinion and Order*; Released December 23, 2002.

WC Docket No. 03-228, In the Matter of Section 272(b)(1)'s "Operate Independently" Requirement for Section 272 Affiliates; *Report and Order*; Released March 17, 2004.

6. In addition, the following pending FCC dockets may, if applicable to the activities of the BOC, result in additional regulations surrounding the Nondiscriminatory Requirements:

Notice of Proposed Rulemaking, FCC 01-339, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-321 Performance Measurements and Standards for Interstate Special Access Services; CC Docket No. 96-149 Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended; RM 10329 AT&T Corp. Petition to Establish Performance Standards, Reporting Requirements, and Self-Executing Remedies Need to Ensure Compliance by ILECs with Their Statutory Obligations Regarding Special Access Services.

Notice of Proposed Rulemaking, FCC 01-331, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-318 Performance Measurements and Standards for Unbundled Network Elements and Interconnection; CC Docket No. 98-56 Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance.

The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period.

ENGAGEMENT PLAN

Engagement Period

7. The AUP engagement shall cover 24 months of operations beginning January 3, 2003 and ending January 2, 2005 for all states where Verizon has obtained authority to provide in-region interLATA services. For all of the Verizon section 272 affiliates the engagement will also cover all assets added since the last audit. The biennial audit will cover all services for which a separate affiliate is required under section 272(a)(2) and includes all BOCs within the Region and ILECs providing or receiving services to/from the section 272 affiliates. The Audit Test Period will be from January 3, 2003 through September 30, 2004, except where noted.

Sunset Provisions

8. Section 272(f)(1) of the Communications Act provides that section 272 (other than subsection (e)) shall cease to apply to the interLATA telecommunications services of a BOC three years after the date the BOC receives authorization to provide interLATA telecommunications services under section 271(d), unless the Commission extends such three-year period by rule or order. Thus, section 272(d) which concerns the Biennial Audit sunsets three years after section 271 authorization. The Commission has determined that such “sunset” shall apply on a state-by-state basis according to the date that each state receives section 271 authorization.[8] Therefore, as each state within the Verizon region sunsets, that state may be excluded from further section 272 audits as of the date of sunset as recognized by the FCC. However, if a BOC in a given state has affiliate transactions with any section 272 affiliate, those transactions will continue to be part of the audit because of the continuation of the Commission’s rules governing affiliate transactions in part 32.

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[8] WC Docket No. 02-112, In the Matter of Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements; *Memorandum Opinion and Order*; Released December 23, 2002.

Accordingly, operations in the following states may be excluded from this engagement as of the effective date of the related FCC public notice:

State	Sunset Effective Date
New York	December 23, 2002[9]
Massachusetts	April 16, 2004[10]
Connecticut	July 20, 2004[11]
Pennsylvania	September 19, 2004[12]
Rhode Island	February 24, 2005[13]
Vermont	April 17, 2005[14]

The Commission has ruled that a BOC will be deemed nondominant in the provision of in-region, interLATA, domestic, interstate service only insofar as that service is provided through an affiliate that complies with section 272 and the FCC's implementing rules.[15] Therefore, operations in each of the sunset states will be included in this engagement unless Verizon gives notice that it has elected to stop providing in-region, interLATA, domestic, interstate service through an affiliate that complies with section 272 and the FCC's implementing rules in a particular state(s). Without such notice provided to the Federal/State joint audit team prior to the date the independent auditor begins its audit work, all states will be included in the engagement regardless of sunset status.

Sampling

9. Certain audit procedures may require testing on a sample basis. The sample sizes and sampling methodologies to be used in performing such audit procedures shall be determined after the initial survey and/or during the performance of the audit of the section 272 affiliate. Such determinations shall be made jointly by the practitioner and specified parties. During this

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[9] WC Docket No. 02-112, Section 272 Sunsets for Verizon in New York State by Operation of Law on December 23, 2002 Pursuant to Section 272(f)(1); *Public Notice*; Released December 23, 2002.

[10] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications, Inc. in the State of Massachusetts by Operation of Law on April 16, 2004 Pursuant to Section 272(f)(1); *Public Notice*; Released April 16, 2004.

[11] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications, Inc. in the State of Connecticut by Operation of Law on July 20, 2004 Pursuant to Section 272(f)(1); *Public Notice*; Released July 20, 2004.

[12] WC Docket No. 02-112, Section 272 Sunset for Verizon Communications, Inc. in the State of Pennsylvania by Operation of Law on September 19, 2004 Pursuant to Section 272(f)(1); *Public Notice*; Released September 17, 2004.

[13] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications, Inc. in the State of Rhode Island by Operation of Law on February 24, 2005 Pursuant to Section 272(f)(1); *Public Notice*; Released February 24, 2005.

[14] WC Docket No. 02-112, Section 272 Sunsets for Verizon Communications, Inc. in the State of Vermont by Operation of Law on April 17, 2005 Pursuant to Section 272(f)(1); *Public Notice*; Released April 20, 2005.

[15] CC Docket No. 96-149, In the Matter of Regulatory Treatment of LEC Provision of Interexchange Services Originating in the LEC's Local Exchange Area; *Second Report and Order*; Released April 18, 1997. WC Docket No. 02-112, In the Matter of Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements; *Memorandum Opinion and Order*; Released December 23, 2002.

process, the practitioner shall obtain detailed listings or lists (representing the population of potential items to be tested) for each procedure. For those procedures requiring statistical sampling, the practitioner shall develop detailed statistical parameters that include the total number of items in the universe, the number of items sampled, method of selection. Where the specified parties and practitioner indicate, and when appropriate, the practitioner shall select a statistically valid sample using random and stratified sampling techniques with the following parameters: a desired confidence level equal to 95%; a desired upper precision limit equal to 5%; and an expected error rate of 1%. Taking under consideration cost versus benefit to be derived, the Oversight Team shall approve the sampling plan, after consulting with Verizon, when reviewing the detailed procedures written by the practitioner and/or during the execution of the procedures.

10. Generally, the practitioner should consider all data and information falling within the engagement period; however, unless otherwise stated in this document or accepted by the Oversight Team, the practitioner should obtain data and information as of the latest period available during the engagement period. For procedures requiring sampling sizes to be based on information available as of the end of the Audit Test Period, the practitioner will utilize September 30 as the relevant date, unless otherwise noted. In addition, to the extent that the companies' processes and procedures change between the time of execution of these procedures and the end of the engagement period, the practitioner has an obligation to test these changes to ensure continued compliance with the section 272 requirements.

Definitions

11. _BOC_ If the BOC transfers or assigns to an affiliated entity ownership of any network elements that must be provided on an unbundled basis pursuant to section 251(c)(3), such entity shall be subject to all of the requirements of the BOC. For purposes of this engagement, in the event that the BOC provides exchange and/or exchange access services on a retail or wholesale basis exclusively through one or more of its subsidiaries or affiliates, or through one or more other subsidiaries, divisions, etc., of the parent Regional Holding Company, and the same services cannot be purchased directly from the BOC, then these entities shall also be subject to all of the relevant nondiscriminatory requirements of Objectives VII through XI of this document. Affiliates that merely resell the BOC's exchange services and/or exchange access services or lease unbundled elements from the BOC, or engage in permissible joint marketing activities (see section 272(g)(1) of the Act), shall be excluded from these requirements.

12. _Verizon BOC_ For the purposes of this engagement, the term "Verizon BOC" includes the following former Bell Atlantic telephone operating companies: Verizon New York, Inc., Verizon New England, Inc., Verizon – Washington, D.C., Inc., Verizon – Maryland, Inc., Verizon – Virginia, Inc., Verizon – West Virginia, Inc., Verizon – New Jersey, Inc., Verizon – Pennsylvania, Inc., Verizon – Delaware, Inc., and any successor or assign of such company as described in ¶11. The term "BOC", for purposes of this engagement, does not include the former GTE telephone operating companies listed below; they shall be termed "ILECs".

The term “ILEC” (Incumbent Local Exchange Carrier) includes the following former GTE telephone companies: Verizon California, Inc., Verizon Florida, Inc., Verizon Hawaii, Inc., Verizon Mid-States (Contel of the South, Inc.), Verizon North, Inc., Verizon Northwest, Inc., Verizon South, Inc., Verizon Southwest (GTE Southwest, Inc.), Verizon West Coast, Inc., Puerto Rico Telephone Company (PRTC), the Micronesian Telecommunications Corp. (MTC), and any successor or assign of such company as described in ¶11 until the date of sale of such company to a company not affiliated with Verizon.

In addition, for the purpose of this engagement, Verizon Advanced Data Inc. (VADI) and VADI Virginia are to be treated as ILECs after the September 26, 2001 order, *Bell Atlantic/GTE Merger*, 16 FCC Rcd 16915 (2001). As of December 31, 2003, VADI’s operations were reintegrated with the ILEC operations. VADI is considered a nonregulated affiliate since several employees remain on the VADI payroll and provide services to the ILEC’s.

13. *Affiliate* The term “affiliate” shall refer to a person that (directly or indirectly) owns or controls, is owned or controlled by, or is under common ownership or control with, another person. For this purpose, the term “own” means to own an equity interest (or the equivalent thereof) of more than 10 percent. (*See* section 3 of the Communications Act of 1934, as amended.)

14. *Verizon Section 272 Affiliate* The audit procedures are required to be performed, unless otherwise specified, on all section 272 affiliates as defined by the Act. For the purposes of this engagement, the term “separate affiliate” or “section 272 affiliate” includes the following companies: Bell Atlantic Communications, Inc. (d/b/a/ Verizon Long Distance); NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions); Verizon Global Networks, Inc.; and Verizon Global Solutions, Inc.. It also includes the following section 272 affiliates resulting from the Bell Atlantic/GTE merger: Verizon Select Services Inc. (VSSI) (formerly GTE Communications Corp.); Codetel International Communications Inc. (CICI); TELUS Communications Inc. (TCI); TELUS Communications (Quebec) Inc. (TCQI); any other affiliate that originates InterLATA telecommunications services in the Verizon region that is subject to section 272 separation requirements; and any affiliate that engages in manufacturing activities as defined in section 273(h).

15. *Official Services* Official Services mean those services permitted by the United States District Court for the District of Columbia in United States v. Western Electric Co. Inc. See 569 F. Supp. 1057, 1098, n.179 (1983) (defined as "communications between personnel or equipment of an Operating Company located in various areas and communications between Operating Companies and their customers"), and its progeny.

16. *Obtain* For purposes of this engagement, the term “obtain” as referred to in the procedures contained herein, shall mean that the practitioner will physically acquire, and generally retain in the working papers, all documents supporting the work effort performed to

adequately satisfy the requirements of a procedure. The practitioner, in their professional judgement, shall decide which items are too voluminous to include in the working papers. The practitioner shall include a narrative description of the size of such items as well as any other reasons for their decision not to include them in the working papers.

Conditions of Engagement

17. The practitioner leading this engagement shall be a licensed CPA. The practitioner's team performing the engagement shall be familiar with the standards established for an agreed-upon procedures engagement, the requirements for the Biennial Audit, and its objectives. The team performing the engagement shall also be independent as defined in the Statements on Standards for Attestation Engagements (SSAE 10, paragraphs 1.35-1.38) and in compliance with the Sarbanes-Oxley Act of 2002. The practitioner shall disclose in its engagement letter to Verizon how the team shall comply with the independence requirements of the Sarbanes-Oxley Act of 2002. All members of the team performing the engagement shall have a sufficient general understanding of the relevant information contained in the following documents:

- Sections 271 and 272 of the Communications Act of 1934, as Amended;

- Part 32.27, Transactions with Affiliates, of the FCC's Uniform System of Accounts for Telecommunications Companies (USOA);

- The relevant orders and rules from the following FCC Dockets:

  a. CC Docket No. 86-111 dealing with the allocation of joint costs between the regulated and nonregulated activities of the telephone company;

  b. CC Docket No. 96-149 dealing with the implementation of the non-accounting safeguards of sections 271 and 272 of the Act;

  c. CC Docket No. 96-150 dealing with the implementation of the accounting safeguards of sections 271 and 272 of the Act;

  d. CC Docket No. 96-98 dealing with the implementation of the local competition provisions of the Act (the interconnection orders);

  e. CC Docket No. 96-115 dealing with the use of customer proprietary network information;

  f. Notice of Proposed Rulemaking, FCC 01-339, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-321 Performance Measurements and Standards for

Interstate Special Access Services; CC Docket No. 96-149 Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended; RM 10329 AT&T Corp. Petition to Establish Performance Standards, Reporting Requirements, and Self-Executing Remedies Need to Ensure Compliance by ILECs with Their Statutory Obligations Regarding Special Access Services. The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period.

g. Notice of Proposed Rulemaking, FCC 01-331, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-318 Performance Measurements and Standards for Unbundled Network Elements and Interconnection; CC Docket No. 98-56 Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance. The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period.

- Verizon's section 271 application(s) and related FCC approval(s);
- Orders issued by state commissions approving interconnection agreements that are covered in the scope of the engagement;
- Petitions for arbitration with the BOC for those agreements tested within the engagement.

18. In addition, to the extent the practitioner determines procedures included in this plan cannot be performed, the practitioner will propose alternate procedures to the Oversight Team, as appropriate. The practitioner will inform the Oversight Team if the practitioner determines it is necessary to modify the agreed upon procedures or the scope of the engagement, in order to provide the specified parties with all of the information needed to determine compliance with the various requirements. The practitioner shall include any additional hours and fees that would result from revisions of the procedures or of the scope of the engagement. After the practitioner informs the Oversight Team of any revisions to the final audit program or to the scope of the audit, the Oversight Team shall inform Verizon about these revisions. These revisions will be subject to the procedures described in paragraph 3 above.

19. The practitioner may use the services of a specialist for assistance in highly technical areas. The practitioner and the specified parties shall explicitly agree to the

involvement of any specialist to assist in the performance of the engagement. The specialist shall not be affiliated in any form with Verizon.

20. The practitioner's use of internal auditors shall be limited to the provision of general assistance and the preparation of schedules and gathering of data for use in the engagement. Under no circumstances shall the internal auditors perform any of the procedures contained in this document. All the procedures in this document shall be performed by the practitioner.

21. The practitioner shall not use or rely on any of the procedures performed during any of the Verizon BOC/ILEC cost allocation manual (CAM) audits to satisfy any of the requirements in Objectives V/VI.

Representation Letters

22. The practitioner shall obtain three types of representation (assertion) letters. The first type of representation letter shall address all items of an operational nature (see para. 23). The second type of representation letter shall address all items of a financial nature (see para. 24). The third type of representation letter shall state that all section 272 affiliates have been disclosed (see para. 25). The following paragraphs detail the contents of each type of representation letter.

23. The representation letters related to operations issues shall be signed by the Chief Operating Officer or the equivalent of each Verizon BOC/ILEC and each section 272 affiliate and shall include the following:

a. acknowledgement of management responsibility for complying with specified requirements;

b. acknowledgement of management responsibility for establishing and maintaining an effective internal control structure over compliance;

c. statement that Verizon has performed an internal evaluation of its compliance with the specified requirements;

d. statement that management has disclosed or will disclose to the practitioner all known noncompliance occurring up to the date of the draft report;

e. statement that management has made available all documentation related to compliance with the specified requirements;

f. statement that management has disclosed all written communications from regulatory agencies, internal auditors, external auditors, and other practitioners, and any written formal or informal complaints to regulatory agencies from competitors, concerning possible noncompliance with the specified requirements, including communications received between the end of the period addressed in management's assertion and the date of the practitioner's report;

g. statements that: each section 272 affiliate operates independently from all Verizon BOCs/ILECs; no Verizon BOC/ILEC owns any facilities jointly with any section 272 affiliate; prior to March 30, 2004, no Verizon BOC/ILEC, or other affiliates other than any section 272 affiliate itself, provided any operating, installation, and maintenance functions over the facilities owned by the section 272 affiliates, or leased by the section 272 affiliates from unaffiliated entities; prior to March 30, 2004, no section 272 affiliate provided any operating, installation, and maintenance functions over any BOC/ILEC's facilities; and no Verizon BOC/ILEC is providing and did not provide any research and development that is a part of manufacturing on behalf of any section 272 affiliate pursuant to section 272(a);

h. statement that each section 272 affiliate has separate officers, directors, and employees from those of any Verizon BOC/ILEC;

i. statement that no Verizon BOC discriminated between itself or the section 272 affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards (on each Verizon BOC's representation letter only);

j. statement that each Verizon BOC/ILEC subject to section 251(c) of the Act has fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates (on each Verizon BOC/ILEC's representation letter only);

k. statement that each Verizon BOC/ILEC subject to section 251(c) of the Act has made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has made available to its section 272 affiliates that operate in the same market (on each Verizon BOC/ILEC's representation letter only).

24. The representation letters related to financial issues shall be signed by the Chief Financial Officer or the equivalent of each Verizon BOC/ILEC and each section 272 affiliate and shall include the following:

a. statement that each section 272 affiliate maintains separate books, records, and accounts from those of any Verizon BOC/ILEC and that such separate books, records, and accounts are maintained in accordance with GAAP;

b. statement that each section 272 affiliate has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of any Verizon BOC/ILEC;

c. statement that management has identified to the practitioner all assets transferred or sold since the last audit, and services rendered: (i) by each Verizon BOC/ILEC to each section 272 affiliate; and (ii) by each section 272 affiliate to each Verizon BOC/ILEC; and that these transactions have been accounted for in the required manner;

d. statement that each Verizon BOC/ILEC subject to section 251(c) of the Act has charged its section 272 affiliates, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service (on each Verizon BOC/ILEC's representation letter only);

e. statement that, if any Verizon BOC/ILEC and an affiliate subject to section 251(c) of the Act make available and/or have provided any interLATA facilities or services to an interLATA affiliate, such facilities or services are made available to all carriers at the same rates and on the same terms and conditions, and the associated costs are appropriately allocated (on each Verizon BOC/ILEC's representation letter only);

f. statement that management has not changed any of the Verizon BOC/ILEC processes or procedures (as they relate to transactions of any kind with a section 272 affiliate) and that these procedures and processes have continued to be implemented on a consistent basis, since the execution of these agreed-upon procedures without apprising the practitioner, before the date of the draft report (on each Verizon BOC/ILEC's representation letter only).

25. The representation letter related to the disclosure of all section 272 affiliates shall be signed by the Chief Financial Officer of Verizon and shall state that each section 272 affiliate has been identified, accounted for in the required manner, and disclosed in the required manner.

Engagement Process

26. The General Standard Procedures, which were drafted through the cooperative efforts of Federal and State Regulators and various industry groups, are intended to provide general areas of audit work coverage and uniformity of audit work among all regions, to the extent possible, considering state regulatory and corporate differences. The standards identified throughout this document are not legal interpretations of any rules or regulations. To the extent that these standards conflict with any FCC rules and regulations, the FCC rules and regulations govern. Accordingly, by agreeing to these procedures, neither the FCC nor Verizon concede any legal issue or waive any right to raise any legal issue concerning the matters addressed in these procedures.

27. The General Standard Procedures shall be used by Verizon as a guide for drafting the preliminary audit requirements, including the proposed scope of the audit, as prescribed in part 53.211(a) and (b) of the Commission's rules. Under these rules, Verizon shall submit the preliminary audit requirements, including the proposed scope and extent of testing, to the Oversight Team before engaging an independent accounting firm to conduct the Biennial Audit. The Oversight Team shall then have 30 days to review the preliminary audit requirements to determine whether they are adequate to meet the audit requirements in part 53.209 of the Commission's rules and "determine any modifications that shall be incorporated into the final audit requirements" (part 53.211(b)). The preliminary audit requirements and scope of the audit shall be similar to the General Standard Procedures and shall cover all the areas described in that model. Verizon shall not engage any practitioner who has been instrumental during the past two years in designing any of the systems under review in the Biennial Audit. After Verizon has engaged a practitioner to perform the Biennial Audit, the process for drafting detailed procedures shall proceed as follows:

- The Oversight Team and the practitioner shall perform a joint survey of the section 272 affiliates and the relevant Verizon BOC/ILECs. The Oversight Team and the practitioner shall coordinate with Verizon to determine the nature, timing and extent of this survey at a mutually agreeable time and location. The survey shall provide the practitioner and the Oversight Team with an overview of the company's structure and policies and procedures such as record keeping processes, the extent of affiliate transactions, and Verizon BOC/ILEC procedures for processing orders for services received from affiliates, unaffiliated entities, and its own end-user customers. The survey shall be conducted between four to six months before the end of the period to be covered by this engagement.

- The practitioner shall develop a detailed audit program based on the final audit requirements and submit it for review to the Oversight Team (part 53.211(d)).

- The Oversight Team shall have 30 days to review the detailed procedures for consistency and adequacy of audit coverage and shall provide to the practitioner any modifications that shall be incorporated into the final audit program (part 53.211(d)).

28. Access to all information during the section 272(d) biennial audit shall be restricted to: (a) FCC staff members; (b) state commission staff members where the state commission by statute protects company proprietary data; (c) state commission staff members who have signed a protective agreement with Verizon; (d) state commission staff members of any participating state that has confidentiality procedures in effect covering all staff and that requires the Chairman or designee to sign the protective agreement on behalf of the entire commission including commission staff; and (e) state commission staff members who have not

signed the protective agreement, but that Verizon does not object to provide oral or written information, provided that they do not take possession of such information.

29. The detailed examination of transactions shall begin at such time as the practitioner deems appropriate to complete the engagement in accordance with the time schedule set forth in part 53.211 and part 53.213 of the Commission's rules.

30. During the conduct of this engagement, and until issuance of the final report to the Commissions, the practitioner shall schedule monthly meetings with the Oversight Team and, at the discretion of the practitioner and the Oversight Team, with Verizon, to discuss the progress of the engagement. The practitioner shall inform the Oversight Team well in advance, but not less than ten days, of plans to meet with representatives of Verizon for the following reasons: to discuss plans and procedures for the engagement; to survey Verizon operations; to review Verizon procedures for maintaining books, records, and accounts; and to discuss problems encountered during the engagement. It shall not be necessary for the practitioner to inform the Oversight Team of meetings with the client to ask for clarification or explanation of certain items, explore what other records exist, or request data. The practitioner shall immediately inform in writing the Oversight Team of any deviation from, or revisions to, the final detailed audit procedures and provide explanations for such actions. The practitioner shall submit to the Chief, Enforcement Bureau, and shall copy the Oversight Team and, at the practitioner's discretion, Verizon, any rule interpretation necessary to complete the engagement. The practitioner shall advise the Oversight Team of the need for additional time to complete the engagement in the event that the Oversight Team requests additional procedures (see 31c. below). Finally, the practitioner shall immediately inform the Oversight Team in writing of any delay or failure by Verizon to respond to requests for information during the engagement.

Timetables

31. In order to complete the engagement in a timely manner, the following time schedule for completion of certain tasks is provided:

a. On March 3, 2005 and prior to discussing the findings with Verizon, the practitioner shall submit a draft of the report to the Oversight Team for all procedures.

b. The Oversight Team shall have until April 18, 2005 to review the findings and working papers and offer its recommendations, comments, and exceptions concerning the conduct of the engagement to the practitioner. The exceptions of the Oversight Team to the findings of the practitioner that remain unresolved shall be included in the final report.

c. If the Oversight Team requests additional procedures, the practitioner shall advise the Oversight Team and Verizon of any need for additional time to perform such procedures. Otherwise, after receiving the Oversight Team's recommendations and making the appropriate revisions, the practitioner shall submit the report by May 3, 2005 to Verizon for its comments on the findings, and to the Oversight Team.

d. By June 2, 2005, Verizon will comment on the findings and send a copy of its comments to both the practitioner and the Oversight Team. Verizon will also provide the practitioner and the Oversight Team notification of all items contained in the draft report, which Verizon contends to be confidential. The Verizon response shall be included as part of the final report.

e. By June 13, 2005, the practitioner may respond to Verizon's comments and shall make available for public inspection the final report by filing it with the regulatory agencies having jurisdiction over Verizon. The final report shall contain the procedures employed with the related findings, the Oversight Team's comments, Verizon's comments, the practitioner's reply comments, and a copy of these procedures as executed.

f. Interested parties shall have 60 days from the date the report is made available for public inspection to file comments with the Commission and/or any state regulatory agency.

Report Structure

32. Consistent with the AICPA standards for AUP engagements, the practitioner must present the results of performing the audit procedures in the form of findings, including dollar amounts, resulting from application of the audit procedures. The practitioner shall include in the report all the information required to be included in the report by the procedures and any further information required by the Oversight Team subject to the provisions of paragraph 3. The practitioner must avoid vague or ambiguous language in reporting the findings and shall describe in the final report all instances of noncompliance with section 272 or its related implementing rules that were noted by the practitioner in the course of the engagement, or disclosed by Verizon during the engagement and not covered by the performance of these procedures. Where samples are used to test data, the report shall identify the size of the universe from which the samples were drawn, the size of the sample, the sampling methodology used and, where appropriate, the standard deviation and mean. The final report shall contain the procedures employed with the related findings, the Oversight Team's comments, Verizon's comments, the practitioner's reply comments, and a copy of these procedures as executed. The practitioner's report must also contain the following elements:

a. A title that includes the word independent.

b. Identification of the specified parties.

c. Identification of the subject matter (or the written assertion related thereto) and the character of the engagement.

d. Identification of Verizon as the responsible party.

e. A statement that the subject matter is the responsibility of the responsible party.

f. A statement that the procedures performed were those agreed to by the specified parties identified in the report or as directed by the Bureau or the Commission, as specified in paragraph 3.

g. A statement that the agreed-upon procedures engagement was conducted in accordance with attestation standards established by the AICPA.

h. A statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures.

i. A list of the procedures performed (or reference thereto) and related findings.

j. A statement that the practitioner was not engaged to and did not conduct an examination of the subject matter, the objective of which would be the expression of an opinion, a disclaimer of opinion on the subject matter, and a statement that if the practitioner had performed additional procedures, other matters might have come to his or her attention that would have been reported.

k. This report becomes a matter of public record via the practitioner's filing the final report with the FCC and the state regulatory agencies having jurisdiction over Verizon.

l. A description of any limitations imposed on the practitioner by the BOC/ILECs or any other affiliate, or other circumstances that might affect the practitioner's findings.

m. A description of the nature of the assistance provided by specialists and internal auditors.

VERIZON COMMUNICATIONS
BIENNIAL ENGAGEMENT PROCEDURES

Exceptions to the General Standard Procedures

I. Throughout these general standard procedures, reference is made to the ‘section 272 affiliate’. Since Verizon has more than one ‘section 272 affiliate,’ the agreed upon procedures must be performed on all section 272 affiliates, unless stated otherwise in the specific procedures or covered by the exceptions below.

The following procedures will not be performed for CICI, TCI, and TCQI:
Objective I, Procedure 6;
Objective II, Procedures 1, 2, and 3;
Objective III, Procedure 2;
Objective IV, Procedures 1, 2, and 3; and
Objective V/VI, Procedure 9.

II. Throughout these general standard procedures, reference is made to the “BOC/ILEC.” Since Verizon has more than one “BOC/ILEC,” the agreed upon procedures must be performed on all BOC/ILECs, unless stated otherwise in the specific procedures or covered by the exceptions below.

A. For Objectives VIII through XI, where the procedures refer to “ILEC,” the practitioner will perform the procedures only in states that the BOC received 271 authority as of the engagement period.

B. Objective III, Procedure 2, will not be performed for PRTC and MTC.

Follow-up Procedures on the Prior Engagement

I. The following matters were noted in the Verizon Communications Inc. Section 272 Biennial Agreed Upon Procedures Report dated June 12, 2003:

A. GTE Communication Systems Corporation, a non-regulated Verizon affiliate, acting through its Verizon Logistics division provided repair of plug-in cards for TCI (a former GTE section 272 affiliate) switches located in Canada from the merger closing date through 2002. As part of the repair service, Verizon Logistics tested the plug-in cards on a test switch owned by Verizon California. (Appendix B:2 in the 6/12/03 report, I-3 in this program)

B. Between January 18, 2001 and January 22, 2002, TCI's Systems Support and Repair organization located in Burnaby, British Columbia, repaired six Verizon GTD5 plug-in cards sent by Verizon Logistics for repair on behalf of Verizon Florida. (Appendix B:3 in the 6/12/03 report, I-3 in this program)

C. Two of 20 leases maintained by the section 272 affiliates were not properly recorded as capital leases according to GAAP. (Appendix A, II-2 in the 6/12/03 report, II-3 in this program)

D. Verizon disclosed that there were 9 instances of services provided between BOC/ILECs and section 272 affiliates without written affiliate agreements, and 6 instances of services provided between BOC/ILECs and former GTE section 272 affiliates without written affiliate agreements. (Appendix A, V/VI-4 and Appendix B-1, V/VI-4 in the 6/12/03 report, V/VI-4a in this program)

E. Fourteen of 81 agreements, and 7 of 121 amendments, between the BOC/ILECs and section 272 affiliates had discrepancies between the agreement and the information disclosed on the internet postings. (Appendix A, V/VI-5 in the 6/12/03 report, V/VI-5 in this program)

F. Some agreements and some parts of the agreements were not readily available for public inspection at the principal place of business. (Appendix A, V/VI-5 in the 6/12/03 report, V/VI-5 in this program)

G. Twenty-six new BOC/ILEC agreements/amendments with section 272 affiliates, and 2 new BOC/ILEC agreements with former GTE section 272 affiliates, executed during the audit period were not posted to the internet within the requisite ten days. (Appendix A, V/VI-5 and Appendix B-1, V/VI-5 in the 6/12/03 report, V/VI-5 in this program)

H. There were instances where the disclosures on the internet were incomplete. (Appendix A, V/VI-5 in the 6/12/03 report, V/VI-5 in this program)

I. For ten of 87 bills from section 272 affiliates to BOCs, management was unable to locate a corresponding amount in the BOCs' books. (Appendix A, V/VI-7 in the 6/12/03 report, V/VI-8 in this program)

J. Verizon BOCs purchased pre-paid calling cards from VSSI, a section 272 affiliate, without obtaining competitive bids. (Appendix A, VII-1 in the 6/12/03 report, VII-2 in this program)

K. Verizon BOCs' customer service representatives, in some instances, failed to give inbound customers the required equal access notifications. (Appendix A, VII-6 in the 6/12/03 report, VII-7 in this program)

L. For certain measurements for which the auditors attempted to replicate the calculation, discrepancies in the prescribed calculation method were found. (Appendix A, VIII-5 in the 6/12/03 report, VIII-5 in this program)

M. Verizon BOCs had several errors in their imputation calculations, and for several months no imputation amounts were booked. (Appendix A, X-2 in the 6/12/03 report, X-2 in this program)

II. When performing the procedures related to the above matters, the practitioner will note in the report whether these matters continued to exist beyond the previous engagement period, what action management took to ensure their non-recurrence or improvement, and the effective date of such action.

Procedures for Structural Requirements

OBJECTIVE I. Determine whether the separate affiliate required under section 272 of the Act has operated independently of the Bell operating company.

STANDARDS

The FCC has issued rules and regulations in CC No. Docket 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended. Some of those rules require that,

- A BOC and its section 272 affiliate cannot jointly own transmission and switching facilities, broadly defined as local exchange and exchange access facilities, or the land and buildings where those facilities are located. (See 47 C.F.R. part 53.203(a) and First Report and Order, para. 15, 158, 160)

- Prior to March 30, 2004, a section 272 affiliate shall not perform operating, installation or maintenance functions associated with the BOC's facilities. Likewise, prior to March 30, 2004, a BOC or any BOC affiliate, other than the section 272 affiliate itself, shall not perform operating, installation or maintenance functions associated with the facilities that each section 272 affiliate owns or leases from a provider other than the BOC with which it is affiliated. (See 47 C.F.R. part 53.203(a)(2), (3) and First Report and Order, para. 15, 158, 163; see also WC Docket No. 03-228, Report and Order, para. 8, 12, 16, 24, 31)

- To the extent that research and development is a part of manufacturing, it must be conducted through a section 272 affiliate. If a BOC seeks to develop services for or with its section 272 affiliate, the BOC must develop services on a nondiscriminatory basis for or with other entities pursuant to section 272(c)(1). (See First Report and Order, para. 169)

PROCEDURES

1. Inquire of management whether there have been any changes in the certificate of incorporation, bylaws, and articles of incorporation of the section 272 affiliates covered in this Biennial Audit, and whether there have been any legal and/or “doing business as” (DBA) name changes since the last engagement period. For each such change reported by management, and for any section 272 affiliate established or formed since the last engagement period, inspect the certificate of incorporation, bylaws, and articles of incorporation to determine whether these affiliates were established as corporations separate from the Verizon BOC/ILECs. Note in the report the results of this procedure.

2. Obtain and inspect corporate entities' organizational chart(s) and confirm, as appropriate, with legal representatives of the Verizon BOC/ILECs, section 272 affiliates, and Verizon Communications, the legal, reporting, and operational corporate structure of the section 272 affiliates. Disclose these facts in the report. Document and disclose in the report who owns the section 272 affiliates.

3. For the period prior to March 30, 2004, inquire of management, identify and document which entity performed operating, installation and maintenance functions over facilities either owned by each section 272 affiliate, or leased from a third party by each section 272 affiliate.

   a.) Obtain management's definition and interpretation of operating, installation, and maintenance (OI&M) functions. Describe in the report management's definition of OI&M.

   b.) For the period prior to March 30, 2004, disclose in the report whether or not any of these above described OI&M services were being performed by the Verizon BOC/ILECs and/or other non-section 272 affiliate(s) on facilities either owned by the section 272 affiliate or leased from a third party by the section 272 affiliate. For each such OI&M service, disclose in the report what service is being performed by what entity, *e.g.*, name of BOC/ILEC, or name of other non-section 272 affiliate.

   c.) For the period prior to March 30, 2004, disclose in the report whether or not any of these above described OI&M services were being performed by the section 272 affiliate on facilities either owned by Verizon BOC/ILECs or leased from a third party by Verizon BOC/ILECs. For each such service being performed by the section 272 affiliate, disclose in the report what service is being performed.

4. As of the end of the engagement period, inquire of management, identify, and document in the report which entity performs operating, installation, and maintenance functions over facilities either owned by each section 272 affiliate, or leased from a third party, by each section 272 affiliate.

   a.) Disclose in the report whether or not any of these OI&M services are being performed by the Verizon BOC/ILECs and/or other non-section 272 affiliate(s) on facilities either owned by each section 272 affiliate or leased from a third party by a section 272 affiliate. For each such OI&M service, disclose in the report what service is being performed by what entity, *e.g.*, name of BOC/ILEC, or name of other non-section 272 affiliate. Also disclose the date upon which each service was first provided.

   b.) Disclose in the report whether or not any of these OI&M services are being performed by any section 272 affiliate on facilities either owned by Verizon BOC/ILECs or leased from a third party by Verizon BOC/ILECs. For each such service being performed by a section 272 affiliate, disclose in the report what service is being performed by what entity, the name of the section 272 affiliate, and the date upon which the service was first provided.

5. Inquire of management to determine whether the Verizon BOC/ILECs perform any research and development (R&D) activities on behalf of the section 272 affiliates. If yes, obtain descriptions of R&D activities of the Verizon BOC/ILECs for the Audit Test Period and note any R&D related to the activities of each section 272 affiliate. For R&D related to the activities of each section 272 affiliate, inquire with Verizon BOC/ILEC personnel for more details, such as the extent of R&D provided, progress reports, cost, and whether the section 272 affiliate has been billed and has paid for this service and disclose in the report. For R&D services offered by any BOC/ILEC to any section 272 affiliate, inquire and disclose in the report as to whether R&D service is offered and/or has been performed by the BOC/ILECs when requested by unaffiliated entities.

6. Obtain as of the end of the Audit Test Period the balance sheet of each section 272 affiliate and a detailed listing of all fixed assets including capitalized software which agrees with the amount shown in the balance sheet. If the list does not agree, inquire and document why and disclose in the report by what amount the assets in the Balance Sheet are more than, or less than, as appropriate, the total amount of the assets on the detailed listing. Identify in the report the types of assets involved in these differences and provide explanations. Verify that the detailed listing includes a description and location of each item, date of purchase or acquisition, price paid and recorded, and from what BOC/ILEC or affiliate purchased or transferred (if purchased from a nonaffiliate, then indicate "Nonaffiliate"). Disclose in the report any item, including dollar amounts, where any of this information is missing. Inspect title and/or other documents, which reveal ownership, of a statistically valid sample of transmission and switching facilities, including capitalized software, and the land and buildings where those facilities are located, added since January 3, 2003. If any of these documents are not made available, disclose in the report. Look for and make a note of any facilities that are owned jointly with any Verizon BOC/ILEC and disclose in the report. The balance sheet information obtained in this procedure should also be used to perform Procedure 9 under Objectives V and VI.

<u>OBJECTIVE II</u>. Determine whether the separate affiliate required under section 272 of the Act has maintained books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell operating company.

<u>STANDARDS</u>

In CC Docket No. 96-150, Implementation of the Accounting Safeguards Under the Telecommunications Act of 1996, the FCC requires that each section 272 affiliate maintain books, records, and accounts, in accordance with generally accepted accounting principles (GAAP), and separate from those of the BOC. (See Report and Order, para. 170)

<u>PROCEDURES</u>

1. Obtain the general ledger (G/L) of each section 272 affiliate as of the end of the Audit Test Period and match the title on the G/L with the name of the affiliate on the certificate of incorporation to determine that a separate G/L is maintained. Look for special codes, if any, which may link this G/L to the G/L of any Verizon BOC/ILEC and provide documentation. State in the report whether or not a separate G/L is maintained, if not, explain why. Note: Linkage at corporate headquarters for consolidations is an accepted practice.

2. Obtain each section 272 affiliate's financial statements (i.e. Income Statement and Balance Sheet) as of the end of the Audit Test Period.

3. For each section 272 affiliate, obtain a list of lease agreements as of the end of the Audit Test Period. Identify leases for which the annual obligation listed in the lease agreement is $500,000 or more. Test both leases for which the section 272 affiliate is the lessor and leases for which the section 272 affiliate is the lessee. For a statistically valid sample of leases $500,000 or more, obtain a copy of the lease agreement, and make a note of the terms and conditions to determine whether these leases have been accounted for in accordance with GAAP. Determine whether client lease accounting policies are in accordance with GAAP. Disclose in the report any instance where these leases were not accounted for in accordance with GAAP.

<u>OBJECTIVE III</u>. Determine whether the separate affiliate required under section 272 of the Act has officers, directors, and employees that are separate from those of the Bell operating company.

<u>STANDARDS</u>

The FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, interprets the above requirement further by stating the following:

- Separate officers, directors, and employees simply dictates that the same person may not simultaneously serve as an officer, director, or employee of both a BOC and its section 272 affiliate. (See First Report and Order, para. 178.)

<u>PROCEDURES</u>

1. Inquire, document and disclose in the report whether each section 272 affiliate and each Verizon BOC/ILEC maintain separate boards of directors, separate officers, and separate employees. For each Verizon BOC/ILEC and section 272 affiliate, obtain a list and formal confirmation from the Corporate Secretary's Office of the names of directors and officers of the Verizon BOC/ILEC and section 272 affiliate, including the dates of service for each Board member and officer for the engagement period. Compare the list of names of directors and officers of each Verizon BOC/ILEC with the list of names of directors and officers of each section 272 affiliate. For those names appearing on both lists, obtain explanations from management and request social security numbers and addresses to ensure that they are not the same individuals. Disclose in the report the number of directors and officers (who have the same social security number and address) who served simultaneously as a director and/or officer of any Verizon BOC/ILEC and any section 272 affiliate.

2. Obtain from their respective Human Resource Departments a list of names and social security numbers of all employees of each section 272 affiliate and each Verizon BOC/ILEC for the engagement period. Run a program which compares names and social security numbers of employees and document in the work papers the names appearing on both lists, respectively. For any employee appearing on both lists simultaneously, inquire and document why in the report.

<u>OBJECTIVE IV</u>. Determine that the separate affiliate required under section 272 of the Act has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell operating company.

<u>STANDARDS</u>

The FCC in 47 C.F.R. part 53.203(d) indicates that a section 272 affiliate shall not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the BOC of which it is an affiliate.

The FCC also expands on this premise in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended. In this docket the Commission states that,

- A BOC cannot co-sign a contract or any other instrument with a section 272 affiliate that would allow each section 272 affiliate to obtain credit granting recourse to the BOC's assets. (See First Report and Order, para. 189)

- The BOC parent, or any other non-section 272 affiliate, cannot sign or co-sign a contract or any arrangement with a section 272 affiliate that would allow the creditor to have recourse to the BOC assets. (See First Report and Order, para. 189)

- A section 272 affiliate cannot enter any arrangement with any party that would permit the lender to have recourse to the BOC in the event of a default. (See First Report and Order, para. 189)

<u>PROCEDURES</u>

1. Document in the workpapers each section 272 affiliate's debt agreements/instruments and credit arrangements with lenders and major suppliers of goods and services. Look for guarantees of recourse to the Verizon BOC/ILECs' assets, either directly or indirectly through another affiliate, and document those instances and disclose in the report. Major suppliers are those having $500,000 or more in annual sales to the section 272 affiliate as stated in the agreement.

2. Using the lease agreements obtained in Objective II, Procedure 3, document any instances in which each section 272 affiliate's lease agreements (where the annual

obligation is $500,000 or more as stated in the agreement) have recourse to the assets of any Verizon BOC/ILEC, either directly or indirectly through another affiliate, and disclose in the report.

3. For all debt instruments, leases, and credit arrangements maintained by each section 272 affiliate in excess of $500,000 of annual obligations and for a sample of 10 debt instruments, leases and credit arrangements that are less than $500,000 in annual obligations (judgmental sample), obtain (positive) confirmations from loan institutions, major suppliers, and lessors to attest to the lack of recourse to any Verizon BOC/ILEC's assets. Disclose in the report any recourse noted.

Procedures for Accounting Requirements

<u>OBJECTIVE V</u>. Determine whether the separate affiliate required under section 272 of the Act has conducted all transactions with the Bell operating company on an arm's length basis with the transactions reduced to writing and available for public inspection.

<u>OBJECTIVE VI</u>. Determine whether or not the Bell operating company has accounted for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

<u>STANDARDS</u>

The FCC in CC Docket No. 96-150, Implementation of the Accounting Safeguards Under the Telecommunications Act of 1996, interprets the above requirements further by stating:

- A section 272 affiliate shall conduct all transactions with the BOC of which it is an affiliate on an arm's length basis, pursuant to the accounting rules described in 47 C.F.R. part 32.27, Transactions with Affiliates, of the FCC Rules and Regulations, with any such transactions reduced to writing and available for public inspection. (See 47 C.F.R. part 53.203(e)). Part 32.27 requires the following:

    For transactions involving the sale or transfer of assets between the carrier and affiliates:

    a. assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariff rate;

    b. nontariffed assets sold or transferred between a carrier and its affiliate that qualify for prevailing price valuation shall be recorded at prevailing price. In order to qualify for prevailing price valuation, sales of a particular asset to third parties must encompass greater than 25% of the total quantity of such product sold by an entity. Carriers shall apply this 25% threshold on an asset-by-asset basis rather than on a product line basis. See “Exceptions” below;

    c. all other assets sold by or transferred from a carrier to its affiliate, the asset shall be recorded at no less than the higher of fair market value or net book cost. See “Exceptions” below.

d. all other assets sold by or transferred to a carrier from its affiliate shall be recorded at no more than the lower of fair market value or net book cost. See "Exceptions" below.

Exceptions:
Floor. When assets are sold by or transferred from a carrier to an affiliate, the higher of fair market value and net book cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

Ceiling. When assets are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and net book cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

Threshold. Carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of the asset(s) reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular asset for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules. When the total aggregate annual value of the asset(s) does not reach or exceeds $500,000, the asset(s) shall be recorded at net book cost.

For transactions involving the provision of services between the carrier and affiliates:

a. services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate;

b. nontariffed services provided between a carrier and its affiliate pursuant to publicly filed agreements submitted to a state commission pursuant to section 252(e) of the Communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly-filed agreements or statements;

c. nontariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation shall be recorded at the prevailing price. In order to qualify for prevailing price valuation, sales of a particular service to third parties must encompass greater than 25% of the total quantity of such service sold by an entity. Carriers shall apply this 25% threshold on a service-by-service basis rather than on a service line basis. See “Exceptions” below;

d. all other services sold by or transferred to a carrier from its affiliate, shall be recorded at no more than the lower of fair market value and fully distributed cost. See “Exceptions” below;

e. all other services sold by or transferred from a carrier to its affiliate shall be recorded at no less than the higher of fair market value and fully distributed cost. See “Exceptions” below.

Exceptions:
Floor. When services are sold by or transferred from a carrier to an affiliate, the higher of fair market value and fully distributed cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

Ceiling. When services are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and fully distributed cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

Threshold. Carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules. When the total aggregate annual value of the service does not reach or exceeds $500,000, the service shall be recorded at fully distributed cost.

- Fully distributed cost is determined by following the standards contained in 47 C.F.R. part 64.901, Allocation of Costs, of the FCC Rules and Regulations. These rules emphasize direct assignment and cost causation. First, costs are to be directly assigned either to regulated or nonregulated activities to the maximum extent possible. Then, costs which cannot be directly assigned are to be grouped into homogeneous cost pools and allocated in accordance with direct or indirect measures of cost causation. Residual costs which cannot be apportioned on any cost-causative basis will be apportioned using the general allocator. The general allocator is the ratio of all expenses directly assigned or attributed to nonregulated activities, to the total of all (regulated and nonregulated) directly assigned or attributed expenses.

- A BOC and a section 272 affiliate may provide in-house services to one another, except for the provision of operating, installation, or maintenance services prior to March 30, 2004. These in-house services, however, must be provided on an arm's length basis, and must be in writing. (See CC Docket No. 96-149, First Report and Order, para 180; see also WC Docket No. 03-228, Report and Order, para. 8, 12, 16, 24, 31)

- Provision of exchange and exchange access services and unbundled network elements constitute transactions requiring disclosure (See CC Docket No. 96-150, Report and Order, para. 124). These transactions include the provision of transmission and switching facilities by the BOC and its affiliate to one another. (See CC Docket No. 96-149, First Report and Order, para. 193)

- The separate affiliate must provide a detailed written description of the asset or service transferred and the terms and conditions of the transaction on the internet within ten days of the transaction through the company's home page. (Note: a transaction is deemed to have occurred once the BOC and its affiliate have agreed upon the terms and conditions of the transaction, not when the service is actually performed or the asset actually sold (See CC Docket No. 96-150, Report and Order, para. 124).) The description of the asset or service and the terms and conditions of the transaction should be sufficiently detailed to allow evaluation of compliance with accounting rules. This information must also be made available for public inspection at the principal place of business of the BOC. The information made available at the principal place of business of the BOC must include a certification statement identical to the certification statement currently required to be included with all Automated Reporting and Management Information System ("ARMIS") reports. Such certification statement declares that an officer of the BOC has examined the submission and that to the best of the officer's knowledge all statements of fact contained in the submission are true and the submission is an accurate statement of the affairs of the BOC for the relevant period. (See CC Docket No. 96-150, Report and Order, para. 122)

- Section 272(b)(3) does not preclude an affiliate of the BOC, such as a service affiliate, or the parent company of both the BOC and its section 272 affiliate from performing functions for both the BOC and its section 272 affiliate. The affiliate transaction rules apply to transactions between the BOC and a nonregulated affiliate of the BOC, such as a service affiliate, and to transactions between the

BOC and its parent company. Under the principle of "chain transactions," the affiliate transactions rules also apply to any transactions between the section 272 affiliate and a nonregulated affiliate of the BOC, such as a service affiliate, that ultimately result in an asset or service being provided to the BOC. (See CC Docket No. 96-150, Report and Order, para. 183)

- In the case of transactions for assets and services subject to section 272, a BOC may record such transactions at prevailing price regardless of whether the 25% threshold has been satisfied. (See CC Docket No. 96-150, Report and Order, para. 137; CC Docket No. 00-199, Report and Order, Appendix F, Part 32.27)

- Nondiscrimination requirements extend to any good, service, facility, or information that a BOC provides to its section 272 affiliate(s) with the exception of joint marketing, which is covered in section 272(g) of the Act. Unaffiliated entities must have equal opportunity to acquire any such good, service, facility, or information. In particular, if a BOC were to decide to transfer ownership of a unique facility, such as its Official Services network, to a section 272 affiliate, it must ensure that the section 272 affiliate and unaffiliated entities have an equal opportunity to obtain ownership of this facility. (See CC Docket No 96-149, First Report and Order, para. 218)

- Interstate rate base, revenue requirements, and price cap indices of the BOC must be reduced by the costs related to any regulated facilities transferred to each section 272 affiliate. (See CC Docket No. 96-150, Report and Order, para. 265; see also C.F.R. 61.45(d)(1)(v))

PROCEDURES

1. Document in the working papers the procedures used by the Verizon BOCs & ILECs to identify, track, respond, and take corrective action to competitors' complaints with respect to alleged violations of the section 272 requirements. Obtain from the Verizon BOC/ILECs a list of all FCC formal complaints, as defined in 47 CFR 1.720; FCC informal complaints, as defined in 47 CFR 1.716 and any written complaints made to a state regulatory commission from competitors involving alleged noncompliance with section 272 for the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the engagement period. This list should also include outstanding complaints from the prior engagement period, which had not been resolved during that period. The list should group the complaints in the following categories:

    - allegations of cross-subsidies (for Objectives V and VI);

- allegations of discriminatory provision or procurement of goods, services, facilities, customer network services information (excludes customer proprietary network information (CPNI)), or the establishment of standards (for Objective VII);

- allegations of discriminatory processing of orders for, and provisioning of, exchange access and exchange services and unbundled network elements, and discriminatory resolution of network problems (for Objective VIII);

- allegations of discriminatory availability of exchange access facilities (for Objective IX);

- allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI).

For each group of complaints, determine by inquiry and documentation how many of these complaints were under investigation, how many complaints had been resolved and in what time frame they had been resolved, if feasible, and disclose in the report. For those complaints that had been resolved, document and disclose in the report how those allegations were concluded and, if the complaint was upheld, inquire and document and disclose in the report what steps the company has taken to prevent those practices from recurring. For all complaints that were filed in the previous engagement period, but were still open as of January 3, 2003, determine by inquiry and review of documentation how many of these complaints were under investigation as of the end of the current engagement period, how many complaints have been resolved as of the end of the current engagement period (and in what time frame they had been resolved), and disclose results in the audit report. For those complaints that have been resolved, document and disclose in the report how those allegations were concluded, and if the complaint was upheld inquire and document and disclose in the report what steps the company has taken to prevent those practices from recurring.

Note: Although applicable to complaints pertaining to Objective V/VI, VII, VIII, IX and XI, this procedure appears only once and will be performed only once for Objectives V/VI, VII, VIII, IX and XI. Reporting of the results of this procedure in the final report should be found here under Objective V/VI, Procedure 1, and should include the results for each respective objective.

2. Obtain, from each Verizon BOC/ILEC and each section 272 affiliate, written procedures for transactions with affiliates. Compare these procedures with the FCC rules and regulations indicated as "standards" above. Note and describe any differences and disclose in the report.

3. Inquire and describe how each Verizon BOC/ILEC and each section 272 affiliate disseminate the FCC rules and regulations and raise awareness among employees for compliance with the affiliate transactions rules. For this purpose, describe in the report type and frequency of training, if any, literature distributed, company's policy, and document the nature of the supervision received by employees responsible for affiliate transactions. Interview employees responsible for the development and recording of affiliate transactions costs in the books of record of the carrier to determine awareness of these rules. Disclose in the report whether these employees demonstrated knowledge of these rules.

4. a. Obtain a listing of all written agreements for services and for interLATA and exchange access facilities between each Verizon BOC/ILEC and each section 272 affiliate which were in effect during the Audit Test Period. Note which agreements are still in effect. For those agreements no longer in effect, indicate the termination date; identify agreements terminated prematurely and document why and disclose in the report. Inquire and document and disclose in the report the provisioning of any service without a written agreement during the engagement period.

   b. Obtain a listing of all written agreements, amendments and addenda that became effective during the Audit Test Period. For a statistically valid sample of such agreements, amendments and addenda, obtain (include in the practitioner work papers) copies of written agreements, amendments and addenda.

5. Using the sample of the agreements, amendments and addenda obtained in Procedure 4b, view each company's web site on the internet and compare the prices and terms and conditions of services and assets shown on this site to the agreements provided in Procedure 4b above. Disclose in the report any instance where an agreement contains an item(s) that does not agree with the corresponding item on the internet, as determined in Attachment 1. Taking those instance(s) where an agreement contains an item(s) that does not agree with the corresponding item on the internet, develop and disclose in the report the error rate as a percentage. This error rate will be developed utilizing Attachment 1 (Columns D and E) and summarized using Attachment 2 (Columns B and C) as provided in this agreed-upon procedures engagement. Using the same sample as above, obtain a list of the principal places of business (BOC headquarters) where these agreements are made available for public inspection. Using a judgmental sample of locations agreed to by the Joint Oversight Team, by physical inspection, determine whether the same information is made available for public inspection at the principal place of business (BOC headquarters) of the Verizon BOC/ILEC. Disclose in the report the total number of sampled agreements where an item in the sampled agreement does not agree with the corresponding item in the agreement at the public inspection site. Describe any differences and inquire why such differences exist and disclose in the report. If the company makes any claim of confidentiality for nondisclosure, obtain details. It should be noted that these transactions should be posted for public inspection within ten days of

their occurrence. Document in the working papers the dates when the sample agreements were signed and/or the services were first rendered (whichever took place first) and the dates of posting on the internet. Inquire and note in the report late postings and reasons when posting took place after ten days of signing of agreement or provision of service (whichever took place first). Document in the working papers the procedures the company has in place for posting these transactions on a timely basis. The information provided on the internet should be in sufficient detail to allow evaluation for compliance with accounting rules (see Docket No. 96-150, Report and Order, para. 122). Such disclosures should include a description of the rates, terms, and conditions of all transactions, as well as the frequency of recurring transactions and the approximate date of completed transactions. For asset transfers, the disclosure should include the appropriate quantity and, if relevant, the quality of the transferred assets. For affiliate transactions involving services priced at fully distributed costs or estimated fair market value, the disclosure should include the number and type of personnel assigned to the project and the level of expertise of such personnel (including the associated rate per service unit (e.g. contacts, hours, days, etc)). Service transactions should also disclose any special equipment used to provide the service, and the length of time required to complete the transaction. Additionally, the disclosure should state whether the hourly rate is a fully-loaded rate, and whether or not that rate includes the cost of materials and all direct and indirect miscellaneous and overhead costs, for goods and services provided at FDC. If the information disclosed on the internet is not sufficiently detailed as described in Attachment 1 (Columns G and H), disclose in the report those particular item(s). Taking those instances where the internet did not contain sufficient details, develop and disclose in the report the error rate as a percentage. This error rate will be developed utilizing Attachment 1 (Columns G and H) and summarized in Attachment 2 (Columns D and E) as provided in this agreed-upon procedures engagement. (See CC Docket No. 98-121, In the Matter of Application of BellSouth Corporation, BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc., for Provision of In-Region, InterLATA Services in Louisiana; *Memorandum Opinion and Order*; Released October 13, 1998, para. 337.) Obtain copies of these public postings and include in the working papers.

6. Obtain a listing and amounts of all nontariffed services rendered by month by Verizon BOC/ILECs to each section 272 affiliate during the Audit Test Period. Determine which of these services are made available to the section 272 affiliate and not made available to third parties, and which services are made available to both the section 272 affiliate and to third parties.

   a. From the services not made available to third parties, select a statistically valid sample. For each transaction in the sample, determine compliance with part 32.27 of the Commission's rules by comparing unit charges to Fully Distributed Cost (FDC), or Fair Market Value (FMV) as appropriate; also check for any "chain" transactions. For new transactions after September 27, 2004, where the total aggregate annual value of a service provided by a Verizon BOC/ILEC to a section 272 affiliate that is not required by section 272 to be made available to third parties reaches the $500,000 threshold contained in part 32.27, obtain a comparison of fair market value to fully distributed costs. If Verizon should contend that an estimate of fair market value can not be established by Verizon and/or an independent third party for any services, such as certain component parts of joint marketing that are offered by the Verizon BOCs to their section 272 affiliates but that are not offered to third parties, obtain from Verizon the reasons and provide documentation of the results of Verizon's and the independent third party's analyses and retain in the workpapers. When differences exist between the amount recorded in Verizon BOC/ILEC financial records, and the amount to be charged in accordance with the affiliate transaction rules, note in the report the number of instances and related amounts, and, after inquiry, document in the report the reasons for these occurrences. Disclose in the report any differences between the amount the section 272 affiliate has recorded for these services in its books of account and the amount the section 272 affiliate has paid for the same services to the Verizon BOC/ILEC.

b. From the services made available to both the section 272 affiliates and to third parties, select a statistically valid sample and for each transaction compare the amounts recorded for the sampled services in the books of the Verizon BOC/ILEC with the amounts recorded for the sampled services in the books of the section 272 affiliate, and with the amounts the section 272 affiliate has paid to the Verizon BOC/ILEC for the sampled services. When differences exist, note in the report the number of instances and related amounts, and, after inquiry, document in the report the reasons for these occurrences. Disclose in the report any difference between the amount recorded in the books of the Verizon BOC/ILEC and the amount the section 272 affiliate has paid to the Verizon BOC/ILEC for the same services. Determine if the transaction was billed to the section 272 affiliate at rates in an interconnection agreement under section 252(e), at the rates in a statement of generally available terms under section 252(f), or at prevailing price, as provided in part 32.27 (c) and (d) of the Commission's rules. Disclose in the report the number of instances and the amounts by which each item is less than or more than the amount required by the rules, and, after inquiry, the reasons for these occurrences.

7. Using the listing obtained in Procedure 6 of services rendered by month by Verizon BOC/ILECs to each section 272 affiliate during the Audit Test Period, determine if any of the services rendered include operations, maintenance, or installation (OI&M) functions.

a. Disclose in the report whether the Verizon BOC/ILECs are rendering any OI&M services to each section 272 affiliate, and the date any such provision of service started. Disclose in the report whether any such OI&M services are or are not made available to third parties.

b. If the Verizon BOC/ILECs render OI&M services to any section 272 affiliate, determine the following and disclose in the report:

- date affiliate agreement was effective (date signed);
- date affiliate agreement was posted to the internet;
- date each Verizon BOC/ILEC filed its Cost Allocation Manual (CAM) amendments with the FCC, and the effective date of those CAM amendments.

8. Obtain a listing and amounts of all services rendered by month to the Verizon BOC/ILECs by each section 272 affiliate during the Audit Test Period. Using a statistically valid sample, compare unit charges to tariff rates, PMP, FDC, or FMV, as appropriate, to determine whether these services were recorded in the books of the Verizon BOC/ILEC in accordance with the affiliate transactions rules. Also check for the existence and proper recording of any "chain" transactions. When differences exist, note in the report the number of instances and the amount by which each item is greater than or less than the amount required by the rules. Inquire and make a note of reasons for these occurrences in the report. Disclose in the report the differences between the amount the Verizon BOC/ILEC has recorded for the services in its books of account and the amount the Verizon BOC/ILEC has paid for the same services to the section 272 affiliate.

9. Using the balance sheet and detailed listing information obtained in Procedure 6 under Objective I, for items added since January 3, 2003, perform the following steps:

a. For those items purchased or transferred from any Verizon BOC/ILEC, obtain net book cost and fair market value. Inquire and document in the report how the fair market value was determined. Inspect these transactions to determine whether they were recorded in the books of the Verizon BOC/ILEC at the higher of FMV or net book cost, as required by the Commission's rules in part 32.27 and disclose in the report.

b. For those items purchased or transferred from another affiliate, identify and document in the report whether they were originally transferred from any Verizon BOC/ILEC to other affiliates.

c. For those items purchased or transferred from any Verizon BOC/ILEC, either directly or through another affiliate, since January 3, 2003, also inquire and obtain details as to how the Verizon BOC/ILEC made an equal opportunity available to unaffiliated entities to obtain ownership of the facilities and disclose in the report. Describe and disclose in the report how and upon what basis the Verizon BOC/ILEC decided to transfer/sell the facilities to a section 272 affiliate instead of an unaffiliated entity.

10. Obtain as of the end of the Audit Test Period a detailed listing of all fixed assets which were purchased or transferred from each section 272 affiliate to any Verizon BOC/ILEC

since January 3, 2003. This detailed listing should include a full description of each item, location, date of purchase, price paid and recorded, and from whom purchased or transferred. For those items purchased or transferred from a section 272 affiliate, obtain net book cost and fair market value. Also determine if these items were originally transferred to the section 272 affiliate from some other affiliate (BOC or other), or purchased originally by the section 272 affiliate. Inspect these transactions to determine whether they were recorded in the books of the Verizon BOC/ILEC at the lower of FMV or net book cost, as required by the Commission's rules in part 32.27. Disclose results of this inspection in the audit report.

11. Where assets and/or services are priced pursuant to section 252(e) (i.e., as approved by the regulatory commissions) or statements of generally available terms pursuant to section 252(f), for a statistically valid sample of assets and/or services, compare the price each Verizon BOC/ILEC charges each section 272 affiliate to the stated price in the publicly-filed agreements or statements and document any differences in the report.

12. Inquire and obtain details as to whether any part of any Verizon BOC/ILEC's Official Services network was transferred or sold to a section 272 affiliate since January 3, 2003. In addition to the requirements for Procedure 9, for any transfer or sale of Official Services network assets on or after January 3, 2003, inquire and obtain details as to how the Verizon BOC/ILEC made an equal opportunity available to unaffiliated entities to obtain ownership of the facilities. Describe how and upon what basis the Verizon BOC/ILEC decided to transfer/sell the facilities to a section 272 affiliate instead of an unaffiliated entity. Disclose all of the above facts in the report.

Procedures for Nondiscrimination Requirements

<u>OBJECTIVE VII</u>. Determine whether or not the Bell operating company has discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards.

<u>STANDARDS</u>

The FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, establishes some non-discriminatory rules and regulations. These rules and regulations do not permit a Bell operating company (BOC) to discriminate in the following manner:

- by giving preference to a section 272 affiliate's equipment in the procurement process. (See First Report and Order, para. 16)

- in awarding contracts for telecommunications equipment directly to their affiliate in a manner that violates section 273(e)(1) or 273(e)(2). (See First Report and Order, para. 234)

- by failing to provide advance information about network changes to its competitors. (See First Report and Order, para. 16)

- by not offering third parties the same goods, services, facilities and information (excludes customer proprietary network information (CPNI) and joint marketing) that it provides to its section 272 affiliate at the same rates, terms, and conditions. (See First Report and Order, para. 202 and 218)

NOTES:

(i) BOCs are not required under the nondiscrimination rules and regulations to provide to third parties Customer Proprietary Network Information (CPNI) that is shared with affiliates (see *Second Report and Order*, CC Docket No. 96-115, Released February 26, 1998, para. 169). The provision of "information" referenced in the nondiscriminatory rules and regulations excludes CPNI. CPNI is defined in section 222(f)(1) of the Act and includes information that is personal to customers as well as commercially valuable to carriers, such as to whom, where and when a customer places a call, as well as the types of service offerings to which the customer subscribes and the extent the service is used.

(ii) BOCs are allowed to jointly market and sell affiliate-provided interLATA services without offering comparable joint marketing opportunities to other providers of interLATA services (see section 272(g)(2) of the Act, and CC Docket No. 96-149, First Report and Order, Paragraphs 291-292). However, if BOCs market or sell their telephone exchange services through joint marketing conducted by the section 272 affiliate, then the BOCs must also permit third parties to market and sell its telephone exchange services (see section 272(g)(1) of the Act).

- in establishing or adopting any standards that favor its section 272 affiliate(s) over third parties. (See First Report and Order, para. 208 and 229)

- in developing new services solely for its section 272 affiliate(s). (See First Report and Order, para. 210)

- in purposely delaying the implementation of an innovative new service by denying a competitor's reasonable request for interstate exchange access until its section 272 affiliate was ready to provide competing service. (See First Report and Order, para. 211)

- in marketing its affiliate's interLATA services to inbound callers without informing them of their right to select the interLATA carrier of their choice. (See First Report and Order, para. 292)

NOTE:

A BOC's obligation to inform callers of their long distance choices is limited to customers who order *new* local exchange *service*. A caller orders "new service" when the customer either receives service from the BOC for the first time, or moves to another location within the BOC's in-region territory. (*See In the Matter of AT&T Corp., Complainant, v. New York Telephone Company, d/b/a Bell Atlantic – New York, Defendant*, Memorandum Opinion and Order, File No. EB-00-MD-011; FCC 00-362; at ¶¶ 13-15.)

In addition, a section 272 affiliate may not market or sell information services and BOC telephone exchange services together, unless the BOC permits other information service providers to market and sell telephone exchange services. (See First Report and Order, para. 287)

PROCEDURES

1. Obtain the Verizon BOC/ILECs' written procurement procedures, practices, and policies. Review these policies for any stated purchasing preferences, and disclose in the report.

Also disclose in the report the bidding and selection processes of the Verizon BOC/ILECs, and how the Verizon BOC/ILECs disseminate requests for proposals (RFPs) to affiliates and third parties.

2. Obtain and inspect the Verizon BOCs' procurement awards to each section 272 affiliate during the Audit Test Period and inspect bids submitted by each section 272 affiliate and third party, note terms, and discuss with Verizon BOC representatives how the selection was made and disclose in the report. Compare this practice with the Verizon BOC/ILEC written procurement procedures and note any differences. Disclose in the report all instances of procurement awards given to the section 272 affiliates. For these awards, disclose in the report the general differences between the terms submitted by the section 272 affiliates and other bidders.

3. Obtain a list of all goods (including software), services, facilities, and customer network services information, excluding CPNI as defined in section 222(f)(1) of the Act, and exchange access services and facilities inspected in Objective IX, made available to each section 272 affiliate by the Verizon BOC/ILECs. For a statistically valid sample of items from this list, inquire and obtain copies of the media used by the Verizon BOC/ILECs to inform unaffiliated entities of the availability of the same goods, services, facilities, and information at the same price, and on the same terms and conditions. Disclose in the report the results of this procedure.

4. Obtain a list from the Verizon BOCs of all unaffiliated entities who have purchased the same goods, as the section 272 affiliates, (including software), services, facilities, and customer network services information (excludes CPNI) from the Verizon BOCs (except for exchange access services, and interLATA services that are the subject of other procedures), during the Audit Test Period. If any, describe what goods, services, facilities, and customer network services information were purchased and the extent of purchases made.

   a. For the list of unaffiliated entities obtained above, obtain a list of billed items by entity. Select a statistically valid sample of billed items for the same goods (including software), services, facilities, and customer network services information (excludes CPNI), and excluding local exchange services, that were purchased by the section 272 affiliates. For the sample, compare the rates, terms, and conditions of the sampled items to the rates, terms, and conditions of the items purchased by each section 272 affiliate. Note any differences and disclose in the report. For the sampled items, document the amount each section 272 affiliate was billed by the BOC, the amount the BOC recorded in its books, and the amount each section 272 affiliate paid for the same items purchased from the Verizon BOC, and disclose any differences in the report.

   b. For local exchange services, compile a list of services billed to the section 272 affiliates by USOC (Universal Service Order Code) in one month, randomly selected, including the rates billed by USOC, by state. Select a statistical sample of USOCs billed and compare the rates charged per USOC selected to the applicable tariff rate. Note any differences and disclose in the report. From the sample items, compile a list of invoices on which the sampled items appeared. From the list of invoices, randomly select 25 invoices and document the amount each section 272 affiliate was billed by the BOC, the amount the BOC recorded in its books, and the amount the section 272 affiliate paid, and disclose differences in the report.

5. Document and disclose in the report how the Verizon BOCs disseminate information about network changes, the establishment or adoption of new network standards, and the availability of new network services to each section 272 affiliate and to unaffiliated entities. Note any differences in the report.

6. At the service call centers observed in Procedure 7 below, obtain and inspect scripts that the Verizon BOCs' customer service representatives recite to new customers calling, or visiting customer service centers, to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory. In addition, obtain the script that is used in Verizon's Consumer Call Centers' Voice Response Unit (VRU). If these scripts contain language to attempt to sell interLATA services, note and disclose in the report whether these scripts inform the consumers that there are other providers of interLATA services and that these providers, along with the interLATA service affiliates, are identified to the consumers. In addition, obtain and inspect the written content of the Verizon BOC website for on-line ordering of new service or to move an existing local telephone service; note and disclose in the report whether the consumers are informed that there are other providers of interLATA services and that these providers, along with the interLATA service affiliate, are identified to the consumers.

7. Obtain a complete listing, as of the end of the Audit Test Period, of all Verizon BOC sales and support customer service call centers.

   a. From the listing, compile a list of Verizon BOC call centers responding to inbound callers requesting to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory. From this listing, identify and group each call center by type of customers, viz., "Consumer" or "Business." Using a random number generator, select six Consumer call centers and four Business call centers. Listen in to a statistically valid number of calls (100 in total, or 10 per call center) in which the customer service representatives attempt to market the section 272 affiliate's interLATA service to callers requesting to establish new local telephone service or to move an existing local telephone service. Labor union concurrence may be needed for this procedure. Note the equal access messages conveyed while listening in, including clarity of the equal access message delivered. Note and disclose in the report any instances where the customer service representative attempted to influence the caller to obtain the interLATA services of the section 272 affiliate prior to providing the equal access message, did not inform the caller of other providers of interLATA services, or did not inform the caller of his right to select the interLATA services provider.

b. From the listing, compile a list of call centers that might incidentally respond to inbound callers requesting to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory (such as sales and service centers that usually receive customer inquiries from existing customers). Using a random number generator, select three such Consumer call centers and two Business call centers, and listen in to 20 calls per center. Labor union concurrence may be needed for this procedure. If any customer requests to establish new local telephone service or to move an existing local telephone service, the practitioner should report the results of the 100 total calls to the Oversight Team for further instructions. The Oversight Team will inform Verizon of the instructions provided to the practitioner.

c. Make a statistically valid number of test calls into Verizon's Consumer Call Centers' Voice Response Unit to listen for the equal access scripting message that is heard by customers prior to reaching a Consumer service representative. Note and disclose in the report any instances where the equal access scripting message was not heard.

8. Obtain a listing of all call centers managed by third parties in which representatives of third-party contractors of the Verizon BOC respond or might incidentally respond to customers requesting to establish new local telephone service or to move existing local telephone service to another location within the BOC in-region territory. Using a random number generator, select three Consumer call centers and the one Business call center. Listen in to 25 calls per call center. If any customer requests to establish new local telephone service or to move an existing local telephone service, the practitioner should report the results of the 100 total calls to the Oversight Team for further instructions. The Oversight Team will inform Verizon of the instructions provided to the practitioner.

9. Identify the controls utilized by Verizon BOCs and the third party contractors hired for inbound telemarketing to assure compliance by Verizon BOCs with section 272. Compare Verizon BOC controls with third party contractor controls and document differences in the audit report. Describe all controls in the report.

10. Obtain and review each of the contracts between Verizon BOCs and third party contractors that provide telemarketing of the section 272 affiliate's interLATA services. Document in the audit report all controls contained in the contracts relating to section 272.

<u>OBJECTIVE VIII</u>. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates.

<u>STANDARDS</u>

Although the FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, reached various conclusions, further proceedings regarding performance measurements (currently underway) will provide the implementing rules and regulations. We will revise these procedures to conform to the new rules and regulations when adopted by the FCC and to the extent in effect during the engagement period. The conclusions reached by the Commission provide that,

- for equivalent requests the response time a BOC provides to unaffiliated entities should be no greater than the response time it provides to itself or its affiliate. (See First Report and Order, para 240)

- a BOC must make available to unaffiliated entities information regarding the service intervals in which the BOC provides service to itself or its affiliates. (See First Report and Order, para. 242)

- a BOC must not provide a lower quality service to competing interLATA service providers than the service it provides to its section 272 affiliate at a given price. (See First Report and Order, para. 16)

In its section 271 applications, Verizon made commitments regarding compliance with section 272(e)(1) of the Act. This included the commitment to provide the performance monitoring that will assist in confirmation of nondiscriminatory performance in Verizon's dealings with its section 272 affiliates. If the Commission adopts reporting requirements, Verizon BOC/ILEC will fully comply.

<u>PROCEDURES</u>

1. Document in the working papers the practices and processes each Verizon BOC/ILEC has in place to fulfill requests for telephone exchange service and exchange access service for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates in each state where Verizon has been authorized to provide in-region interLATA services. If the section 272 affiliates, or BOC and other BOC affiliates, are treated differently than nonaffiliates, note and describe all differences in the report. Describe in the report the BOC's internal controls and procedures designed to implement its duty to provide

nondiscriminatory service.

2. For each state where Verizon has been authorized to provide in-region interLATA services, document in the working papers the processes and procedures followed by the Verizon BOC/ILEC to provide information regarding the availability of facilities used in the provision of special access service to its section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates. Note any differences. Inquire of management whether any employees of the section 272 affiliates or other affiliates have access to, or have obtained, information regarding special access facilities availability in a manner different from the manner made available to nonaffiliates (e.g., direct calls, placed prior to ordering, from the section 272 affiliates or BOC account managers to employees who may have facilities availability information). Disclose in the report any such instances.

3. For each state where Verizon has been authorized to provide in-region interLATA services, obtain written methodology that the Verizon BOC/ILEC follows to document time intervals for processing orders (for initial installation requests, subsequent requests for improvement, upgrades or modifications of service, or repair and maintenance), provisioning of service, and performing repair and maintenance services for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates for the services described in Procedure 4, below. Briefly describe this methodology in the report. If the company does not have any written procedures inquire and document why in the report.

4. For each state where Verizon has been authorized to provide in-region interLATA services, obtain and include as an attachment to the report, performance data maintained by each Verizon BOC/ILEC during the engagement period, by month. Indicate time intervals for processing orders (on initial installation requests, subsequent requests for improvement, upgrades or modifications of service, and repair and maintenance), for provisioning of service, and for performing repair and maintenance services for the section 272 affiliates, the BOC and other BOC affiliates, and nonaffiliates, as separate groups. Provide performance data for the following services:

   - Telephone exchange service, if any of the separate groups resells local service or intraLATA toll service. This does not include the selling of BOC local service or intraLATA toll service to retail customers.

   - Exchange access services as submitted through an ASR for DSO, DS1, DS3, feature group D, and OCn, as individual groups. For the BOC and other BOC affiliate group, exchange access measurements should cover services provided to end users on a retail basis and services provided to affiliates on a wholesale basis.

   - Unbundled network elements if any section 272 affiliate purchases unbundled network elements.

- Presubscribed Interexchange Carrier (PIC) change orders for intraLATA toll services and interLATA services.

The table below should be used as guidance for the information to be included in the metrics.

If performance measures are applicable for either the "section 272 affiliates" or the "BOC and other BOC affiliates" groups, performance metrics for nonaffiliates are required. If performance measures are not applicable for the "nonaffiliated" group, performance metrics are not required to be reported for either the "section 272 affiliates" or the "BOC and other BOC affiliates" groups. When reporting performance measures for the "nonaffiliates" group, only performance measures for the services purchased by the "section 272 affiliates" and/or the "BOC and other BOC affiliates" need be reported.

For each group (section 272 affiliates, the BOC and other BOC affiliates, and nonaffiliates) and each service category (telephone exchange service, exchange access service, UNEs, and PIC change orders) combination in the table below for which Verizon makes a claim of "not applicable", the practitioner must confirm independently that there are no such measurements to be reported, or get a representation letter from management as to why such measurements do not need to be reported in this engagement.

SUMMARY OF COMPANY TYPE AND SERVICE TYPES FOR PERFORMANCE MEASUREMENT REPORTING

Company Type	Telephone Exchange Service	Exchange Access Service (ASRs Only)	UNEs	PIC Change Orders (both interLATA and intraLATA PIC changes)
Section 272 Affiliate	Included - if the section 272 affiliate resells local service or intraLATA toll service	Included	Included if applicable	Included
Other Affiliates, Including the BOC(s)	Included - to measure services provided on a **Resale** basis	Included - to measure services provided to end users on a **Retail** basis, and **Wholesale** services provided to affiliates	Included only if any 272 affiliate leases any UNEs from the BOC - if applicable	Included if applicable
Non-Affiliates (includes all entities purchasing services for resale or on a wholesale basis)	Included - to measure services provided on a **Resale** basis	Included	Included only if any 272 affiliate leases any UNEs from the BOC - if applicable	Included

The performance measures should include the requested performance data by month, including related parity scores, for each state beginning with the first whole month of data following January 3, 2003, or section 271 approval if later, for that state and ending on December 31, 2004. Where appropriate, the performance measures data shall reflect the standard deviation, as well as mean. For purposes of inclusion in the audit report, the practitioner should obtain all restatements of any performance data, and include in the report the latest restatement. For any months, states, or parity scores for which Verizon makes a claim of “not applicable” or “not available,” the practitioner must confirm independently that there are no such measurements to be reported, or get a representation letter from management as to why such measurements do not need to be reported in this engagement.

For each of the above service categories, except for PIC change orders, the measurements shall be those that Verizon has committed to maintain in each section 271 application as modified to be consistent with changes to Condition 19 Paragraph 53 of the BA/GTE Merger Conditions to prove compliance with these nondiscriminatory requirements, as follows:

a. Firm Order Confirmation Response Time: i.e., The amount of elapsed time between the receipt of a valid order request (Access Service Request-ASR) from each group of carriers/customers and the distribution of a service order confirmation back to the customer. Indicate the total number of order requests for each service and for each group of customers.

b. Average Installation Interval: i.e., The average interval expressed in days, between the date the service order of each group of carriers/customers was placed and the date the service order was completed for orders completed during the current reporting period. This amount is calculated by dividing the total days for all installation orders or circuits from each group of carriers/customers by the number of installation orders or circuits from carriers/customers. Business days are used in calculations for former Bell Atlantic states and calendar days are used in former GTE states. This amount excludes installation orders or circuits not completed by the commitment date because the customer was not prepared to receive the service. Example of the customer not prepared include, but are not limited to, the following situations: 1) customers not ready, 2) customers requested later date, 3) premises not ready, 4) customer not prepared to test, 5) no access to premises. Indicate the total number of service orders for each service and for each group of customers.

c. % Installation Commitments Met: i.e., The percentage of commitments met during the current reporting period. This amount is calculated by dividing the number of special access installation orders or circuits from each group of carriers/customers completed by due date by the total number of installation orders or circuits. This amount excludes installation orders or circuits not completed by the due date because the customer was not prepared to receive service on their date. Example of the customer not prepared include, but are not limited to, the following situations: 1) customers not ready, 2) customers requested later date, 3) premises not ready, 4) customer not prepared to test, 5) no access to premises. Indicate the total number of installation orders for each service and for each group of customers.

d. Total Trouble Reports: i.e., The total number of circuit-specific trouble reports referred to the BOC/ILEC by each group of carriers/customers during the current reporting period. This amount includes repeat trouble reports. Indicate the total number of circuit-specific trouble reports for each service, for each group of customers.

e. <u>Average Repair Interval:</u> i.e., The average interval, expressed in hours to the nearest tenth based on a stopped clock, from the time of the reporting carriers receipt of the trouble report to the time of acceptance by the complaining carrier/customer. This interval is defined as interval measure in clock hours, excluding only time when maintenance is delayed due to circumstances beyond the BOC/ILEC's control. Typical reasons for delay include, but are not limited to, premise access when a problem is isolated to the location or absence of customer support test facilities. This amount is calculated by dividing the total hours for the total trouble reports by the number of total trouble reports. Indicate the total number of trouble reports for each service, for each group of customers.

For PIC change orders, the measurements shall be as follows:

a. <u>Average Time of PIC Change:</u> i.e., Time measured from receipt of carrier initiated change to completion at switch. Indicate the total number of PIC change orders for each group of customers.

Note and disclose in the report differences in time in fulfilling each type of request for the same services from the section 272 affiliates, the BOC and other BOC affiliates, and nonaffiliates. Elicit explanations from Verizon where fulfillment of requests from nonaffiliates took longer than for either the section 272 affiliates or the BOC and other BOC affiliates. Provide in the report a linear graph for each state, for each performance measure, for each service, over the entire engagement period, depicting the performance for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates.

5. Using the reported data (i.e., by state, by service, by performance measure, by month) in Procedure 4 above, randomly select one month during the engagement period for all states where Verizon has obtained authority to provide in-region interLATA services. For the selected month, apply the business rules to the underlying raw data and compare the results to those tracked and maintained by the Verizon BOCs for that performance metric. Applying the business rules must include all stages of the performance metric including definitions, exclusions, calculations, and reporting structure. Document any differences in the report.

6. Determine by inquiry, first, and then by inspection, how and where the Verizon BOC/ILEC makes available to unaffiliated entities information regarding service intervals that were experienced in providing any service to the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates. Document the results in the report.

<u>OBJECTIVE IX</u>. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has to its affiliate required under section 272 that operates in the same market.

<u>STANDARDS</u>

The FCC in CC Docket No 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, indicates that a BOC may not discriminate in favor of its section 272 affiliate in the following manner:

- by providing exchange access services to competing interLATA service providers at a higher rate than the rate offered to its section 272 affiliate. (See First Report and Order, para. 16)

- by not making available facilities and services to others on the same terms, conditions and prices that it provides to its section 272 affiliate. (See First Report and Order, para. 316)

<u>PROCEDURES</u>: This objective is closely related to Objective XI which contains procedures for the provision by the BOCs of interLATA facilities and services. Therefore, these procedures may be performed in conjunction with the procedures for Objective XI.

1. Obtain a list of exchange access services and facilities with their related rates offered to each section 272 affiliate and inspect to determine whether the Verizon BOC/ILECs make these services and facilities available at the same rates and on the same terms and conditions to all carriers. For this purpose, inspect brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of these services. Using a statistically valid sample of the informational media identified above, compare rates, terms, and conditions offered to each section 272 affiliate with those offered to unaffiliated carriers. Note in the report all exceptions.

2. Obtain a listing of all invoices for exchange access services and facilities, by BAN, for one month, randomly selected, rendered by the Verizon BOC/ILECs to the section 272 affiliates and other interexchange carriers (IXCs). Using a statistically valid sample of invoices rendered to the section 272 affiliates, inspect underlying details of invoices. For each section 272 affiliate invoice, randomly select one billed item and compare the rates charged, and terms and conditions applied, to each section 272 affiliate with those charged and applied to IXCs for the same service and note any differences. For purposes of making the comparison with the IXCs, for each billed item selected obtain a list of 10 IXCs (or less, if there are fewer matches) that ordered the same billed item during the

same period. Apply a random number generator to determine which IXC to use for the comparison of rates, terms and conditions. If differences are noted, pursue the matter further through inquiry of appropriate personnel and note why any differences occurred. Disclose any differences in the audit report.

3. Using the invoices from the month selected in Procedure 2 above, determine whether the amount invoiced was the amount recorded by the Verizon BOC/ILEC and paid by each section 272 affiliate. For this purpose, inspect the Accounts Payable screen that identifies the method of payment such as check number or electronic fund transfer number, and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of the screens/summaries for the work papers. Note any differences and inquire as to why they occurred and disclose in the report. Inquire of management and document in the report how the services billed by the BOC/ILEC are recorded in the general ledger by the BOC/ILEC.

<u>OBJECTIVE X</u>. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have charged its separate affiliate under section 272, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service.

<u>STANDARDS</u>

The FCC has issued rules and regulations in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended. These rules require that,

- A BOC may not discriminate in favor of its section 272 affiliate by providing exchange access services to competing interLATA service providers at a higher rate than the rate offered to its section 272 affiliate (See First Report and Order, para. 16). This requirement is met,
    - If the affiliate purchases exchange service and exchange access service at tariffed rates. (See First Report and Order, para. 256)
    - If the affiliate acquires services or unbundled elements from a BOC at prices that are available on a nondiscriminatory basis under section 251. (See First Report and Order, para. 256)
    - If the BOC files with the State Commission a statement of generally available terms pursuant to section 271(c)(1)(B) which would include prices that are available on a nondiscriminatory basis in a manner similar to tariffing, and a BOC's section 272 affiliate obtains access or interconnection at a price set forth in the statement. (See First Report and Order, para. 256)
    - If a BOC makes volume and term discounts available on a nondiscriminatory basis to all unaffiliated interexchange carriers. (See First Report and Order, para. 257)
- BOCs are required to charge nondiscriminatory prices, and to allocate properly the costs of exchange access according to the affiliate transactions and joint cost rules. (See First Report and Order, para. 258)
- For integrated operations (for operations performed within the company and not under a separate affiliate), a BOC must impute to itself an amount for access to its telephone exchange service and exchange access that represents tariffed rates (See First Report and Order, para. 256). This tariffed rate must be the highest rate paid for access by

unaffiliated carriers. The BOC may consider the comparability of the service provided. (See CC Docket No. 96-150 Report and Order, para. 87)

PROCEDURES

1. Obtain a list of interLATA services offered by the Verizon BOCs and discuss the list with appropriate Verizon BOC employees to determine whether the list is comprehensive. Compare services appearing on the list with the interLATA services disclosed in the Verizon BOCs' Cost Allocation Manual (CAM) and note any differences in the report. Compare the nonregulated interLATA services listed in the Verizon BOCs' CAM with those defined as incidental in section 271(g) of the Act and those interLATA services allowed under FCC order (for example E911) and note any differences and disclose in the report.

2. From the list of services obtained in Procedure 1 above, by using a statistically valid sample of interLATA services offered by the Verizon BOCs and not through an affiliate, determine whether each Verizon BOC is imputing (charging) to itself an amount for access, switching, and transport. Obtain usage details and tariff rates for each of the above elements. Match rates used in calculations with the tariff rates or the highest rates charged other interexchange carriers (IXCs) and note any differences in the report. Trace the amount of the journal entry to the general ledger of the Verizon BOC. The entry should be a debit to nonregulated operating revenues (decrease) and a credit to regulated revenues (increase). If the process followed by the Verizon BOC is different from the one described above, disclose in the report.

3. For each of the following categories of services, viz., exchange access services, local exchange services, and unbundled network elements, provided by the Verizon BOC/ILECs to the section 272 affiliates during the last 12 months of the engagement period, document the total amount the section 272 affiliates have recorded for those services in their books and compare with the amount the affiliates paid to the BOC/ILECs and the amount of revenue reflected in the Verizon BOC/ILECs’ books for those services. Disclose differences, if any, in the report, and the reason for these differences. Inquire of management and document in the report how the services billed by the BOC/ILECs are recorded in the general ledger by the BOC/ILECs.

<u>OBJECTIVE XI</u>. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have provided any interLATA facilities or services to its interLATA affiliate and made available such services or facilities to all carriers at the same rates and on the same terms and conditions, and allocated the associated costs appropriately.

<u>STANDARDS</u>

Valuation and recording procedures for sales or transfers of any interLATA or intraLATA facilities to each section 272 affiliate, leasing of any unbundled network elements, or provision of any service by the BOC to each section 272 affiliate are covered in Objectives V and VI of this program, under the affiliate transactions rules.

BOC services and unbundled network elements made available under section 251 to each section 272 affiliate must also be made available at the same price to unaffiliated companies. (See CC Docket No. 96-149, First Report and Order, para. 256)

<u>PROCEDURES</u>: This objective is closely related to Objective IX which contains procedures for the provision by the BOC of exchange access services. Therefore, these procedures may be performed in conjunction with the procedures for Objective IX.

1. Obtain a list from the Verizon BOC/ILECs of interLATA services and facilities with their related rates offered by the Verizon BOC/ILECs to each section 272 affiliate to determine whether the Verizon BOC/ILECs make these services and facilities available at the same rates, terms, and conditions to all carriers. For this purpose, also obtain and inspect brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of these services.

   Compare the list of interLATA services offered obtained from the Verizon BOC/ILECs to the services found in the obtained information media and note any differences in the audit report. In addition, compare the list obtained from the Verizon BOC/ILECs to the list of interLATA services purchased by section 272 affiliates and obtained in Objective V/VI, Procedure 4, and to the list of interLATA services purchased by section 272 affiliates and obtained in Objective X, Procedure 1 (after comparison to the CAM). Document in the audit report any instance where services were found in either the list of services from Objective V/VI, Procedure 4, the list of services from Objective X, Procedure 1, or in advertising media that were not reported by the Verizon BOC/ILECs in response to this procedure. Also document in the audit report any interLATA services that are provided to any section 272 affiliate, but which are not covered by any written agreements.

2. Using the information media obtained in Procedure 1, select a statistically valid sample of such media. Compare the rates, terms, and conditions offered each section 272 affiliate with the rates, terms, and conditions offered unaffiliated carriers. Disclose any differences in the audit report.

3. Obtain an invoice for interLATA services and facilities for three different months, randomly selected, from the Audit Test Period rendered by the Verizon BOC/ILECs to the section 272 affiliates and other interexchange carriers (IXCs) that receive these services from the Verizon BOC/ILECs. Using a statistically valid sample of billed items, inspect underlying details of invoice and compare rates charged, and terms and conditions applied, to each section 272 affiliate with those charged and applied to other IXCs for the same services and note any differences. For purposes of making the comparison with the IXCs, for each billed item selected obtain a list of IXCs that ordered the same billed item during the same period. Apply a random number generator to determine which IXCs to compare with the rates, terms and conditions applied to each section 272 affiliate. If differences are noted, pursue the matter further through inquiry of appropriate personnel and note why they occurred and disclose in the report.

4. Using the invoices from the months selected in Procedure 3 above, trace the amount invoiced to each section 272 affiliate for interLATA facilities and services and determine whether the amount invoiced was the amount recorded by the Verizon BOC/ILEC and paid by the section 272 affiliate. For this purpose, inspect the Accounts Payable screen that identifies the method of payment such as check number or electronic funds transfer number, and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of the screens/summaries for the work papers. Note any differences and inquire as to why they occurred and disclose in the report.

Procedures for Subsequent Events

1. Inquire of management whether companies' processes and procedures have changed since the time of execution of these procedures and the end of the engagement period. If so, identify those changes and re-perform the related procedures to determine continued compliance with those requirements. Disclose in the report changes and results of the procedures re-performed.

2. Inquire of and obtain written representation from management as to whether they are aware of any events subsequent to the engagement period, but prior to the issuance of the report, that may affect compliance with any of the objectives described in this document. Disclose in the report any such event. (*See* Paragraph 4 within the Compliance Requirements of these agreed-upon procedures for the scope of the audit.)

Objectives V & VI; Procedure 5
Assessing Individual Web Postings

Form 1 (or electronic equivalent) required for each sample.
Sample # __________ Posting Reference __________

Col. A	Col. B	Col. C	Col. D	Col. E		Col. F	Col. G	Col. H
Category	Is This "Category" Included in The Underlying Written Agreement?	Quantification of Columns D and E for Each Category in Column A	Accuracy of Web Posting			Quantification of Columns G and H for Each Category in Column A	Completeness of Web Posting	
			Total Number of Items Checked in Sample	Errors[1] Found in Sample			Total Number of Items Checked in Sample	Errors[2] Found in Sample
T&C – Description of Service [includes title of service and what is the service]	Yes	1 per posting				1 per posting		
Rates-Level[3]	Yes	1 per rate				1 per rate		
Rate-Pricing Criterion [Tariff, PMP, FMV/FDC Designation]	Varies—generally not included	1 per rate				1 per rate		
T&C – Parties Providing Service[4]	Yes	# of parties to agreement				1 per posting		
T&C – Parties Receiving Service[5]	Yes	# of parties to agreement				1 per posting		
T&C –Contract Period [Effective Date of Service and Termination Date of Service]	Yes	2 per posting				Generally 2 per posting		
T&C – Renewal Clause	Yes	1 per posting				1 per posting		
Frequency of Recurring Transactions	Yes	Generally 1 per rate; may be summarized for a posting				Generally 1 per rate; may be summarized for a posting		
Number of Personnel	Yes[6]	1 per rate				1 per rate		
Personnel Type	Yes[6]	1 per rate				1 per rate		
Expertise Level[7]	Yes[6]	1 per rate				1 per rate		

1 An error is any instance where an agreement contains an item(s) that does not agree with the corresponding item on the internet.
2 An error is any instance where the internet did not contain sufficient details.
3 For those websites that the rate is hyperlinked to the FCC/state tariffs, the Total Number of Items Checked in Sample will be one (1) and the link must go to the correct tariff for the number of errors found in that sample to be zero (0), when comparing the agreement to the web posting.
4 Column D – If the section 272 affiliate is providing the service, regardless of the names/numbers of other parties also providing the service in the contract, only the section 272 affiliate name need be identified on the website.
5 Column D - If the section 272 affiliate is receiving the service, regardless of the names/numbers of other parties also receiving the service in the contract, only the section 272 affiliate name need be identified on the website.
6 Applies to this section only if the agreement contains applicable language, otherwise N/A.
7 Expertise level is considered the "job title" of the person doing the work.

Col. A	Col. B	Col. C	Col. D	Col. E		Col. F	Col. G	Col. H
Category	Is This "Category" Included in The Underlying Written Agreement?	Quantification of Columns D and E for Each Category in Column A	Accuracy of Web Posting			Quantification of Columns G and H for Each Category in Column A	Completeness of Web Posting	
			Total Number of Items Checked in Sample	Errors[1] Found in Sample			Total Number of Items Checked in Sample	Errors[2] Found in Sample
Special Equipment	Yes[6]	1 per posting				1 per posting		
Completion Time for Transaction	No	NA		NA		Generally 1 per rate		
Contains notation / footnote that the labor rate is a fully loaded rate	No	NA		NA		1 per posting		
Contains notation / footnote that the labor rate includes material cost	No	NA		NA		1 per posting		
Contains notation / footnote that the rate includes all direct and indirect misc. and overhead cost	No	NA		NA		1 per posting		
Assets - Quantity Transferred	Yes	Varies-quantity for each type of asset transferred				Varies-quantity for each type of asset transferred		
Assets - Quantity Transferred	Yes	Varies-quantity for each type of asset transferred				Varies-quantity for each type of asset transferred		
Total Items/Results (Move to Form 2)								

Attachment 2

Objectives V & VI; Procedure 5

Summary of Web Posting Completeness and Accuracy Results

Form 2 - These results would be developed based on the Form 1 results for each sample.

Col. A	**Col. B**	**Col. C**		**Col. D**	**Col. E**
	Accuracy of Web Postings			Completeness of Web Posting	
	Total Number of Items Checked in Sample	Errors Found in Sample		Total Number of Items Checked in Sample	Errors Found in Sample
Sample # 1					
Sample # 2					
Sample # 3					
Sample # 4					
Sample # 5					
Sample # 6					
Sample # 7					
Sample # 8					
Sample # 9					
Sample # 10					
Sample # 11					
Sample # 12					
Sample # 13					
Sample # 14					
Totals					
Error Rate as a Percentage		Col. C Total / Col. B Total x 100			Col. E Total / Col. D Total x 100

See underlying Comments from Verizon Communications Inc.

APPENDIX C – Comments from Verizon Communications Inc.

VERIZON RESPONSE TO YEARS 2003/2004 SECTION 272 AUDIT REPORT

Section 272 Audit Report Issue/Report Language	***Management Response***
APPENDIX A-	
Obj V&VI, Procedure 4 As required by the procedure, Verizon self disclosed instances where services were provided between the Verizon BOC/ILEC and section 272 affiliate at some point during the period January 3, 2003 to January 2, 2005 without a written agreement between the parties.	As noted in the report, many of the services provided without a written agreement were for minor administrative matters or for activities already disclosed in the last section 272 audit report. In other cases there were amendments to add services or features to well established agreements (e.g. billing and collection). Pursuant to the Consent Degree between Verizon and the Federal Communications Commission (FCC), released July 27, 2004, Verizon has implemented remediation procedures to minimize the provision of services without a contract, and it provides a report each quarter to the Senior Vice President for Regulatory Compliance identifying any services provided to the section 272 affiliates prior to a written contract. All of the items noted in the audit were discovered by Verizon, self-disclosed to the auditor, and corrected through the execution of written contracts. This data shows that the Consent Decree and Verizon's internal controls have been effective in minimizing the instances of services being provided prior to a written contract.
Obj V&VI, Procedure 5 The auditors sampled agreements and noted instances where the Verizon posting took place after ten days from the signing of the agreement or provision of service (whichever came first).	The report noted 13 instances, which can be broken down into the following categories: (1) Four late postings were administrative errors, three of which were associated with Section 272 affiliates that had few if any other activity. (2) Eight of the remaining nine agreements were posted more than 10 days after the services were provided but within the 10 days of the date that the agreements were executed. As written, the audit report counts the same "lateness" issue twice in the procedures for both services without a contract and contracts posted more than 10 days from execution. Five of the agreements that are listed in Procedure 5 were for the same services that were disclosed to the auditors in response to Procedure 4 concerning services provided prior to the execution of a written contract.

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	Verizon is focused on the timeliness and accuracy of web postings and has provided additional training for the section 272 web posting teams to stress the importance of meeting the 10 day window. The current audit results for web postings show improvements in accuracy and completeness from the last audit. In this audit, Deloitte & Touche identified no instances where the web postings contained insufficient details (0% error rate on Attachment A-2). In addition, Deloitte & Touche found no instances where an item in the sampled agreement did not agree with the corresponding item in the agreement at the public inspection site.

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Obj V&VI, Procedure 6(a) For 93 of the 95 transactions, we compared the unit charges in the invoice to FDC and FMV and noted for 92 transactions the unit charges were priced at the higher of either FDC or FMV. We noted one transaction where the unit charge was the lower of FDC or FMV.	The one service for which the unit charge was the lower of FDC or FMV was for the National Sales Support data processing of orders in the fGTE territories. The difference equates to an under billing of approximately $33,000 per year and adjustments will be processed for the difference.
Obj VII, Procedure 4 (a) Billing & Collection Services The sample selected included 91 items related to the Billing and Collection services provided to unaffiliated entities. A total of 22 unaffiliated parties were identified from the samples who received Billing and Collection services which were also provided to section 272 affiliates. The B&C services provided to each of the unaffiliated entities were covered by individual agreements (22 agreements in total). The B&C services were provided to only three section 272 affiliates during the Audit Test Period (VES, VSSI and VLD) and are covered by one agreement which was the common agreement for all section 272 affiliates. We examined the common section 272 B&C agreement with each of the 22 individual agreements from the unaffiliated entities to compare the rates, terms and conditions of the items purchased under the Billing and Collection contracts.	**Terms and Conditions** Terms and conditions are set forth in the various agreements are the result of arms-length negotiations by both parties. Several of the differences in the report between the affiliate contracts and the nonaffiliate contracts were the result of negotiations with the unaffiliated entity. **Rates** Rates are offered to unaffiliated entities terms and conditions that are at least as favorable as those offered to affiliated entities. Similarly, product offerings are available to all affiliates and unaffiliated entities on a nondiscriminatory basis. Some of the differences between affiliate and nonaffiliate B&C contracts are due to the fact that not all of these parties subscribe to the same services. For instance, affiliates do not subscribe to Local Pay-Per-Call Service, the SubCIC Services, or the Supplemental Services and are therefore unaffected by rate changes. Although all rates are done in lock step for both affiliates and unaffiliated parties, there also are differences between affiliate and nonaffiliate contracts due to the fact that only affiliate agreements require an amendment for rate or pricing changes. The rates in the unaffiliated agreements are changed pursuant to written notice to the party, because there is no requirement for a contract amendment. Current policy, beginning in January 2004, is to include all prices for all B&C services in all contracts, regardless of the product purchased or whether it is purchased by a nonaffiliate.

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Obj VIII, Procedure 5 For the randomly selected month of June 2003, Deloitte & Touche requested the underlying raw data and data file layouts, data documentation, data dictionaries and regulatory guidelines needed to replicate all the metrics for June 2003 selected for all states where Verizon has obtained authority to provide in-region interLATA services. Deloitte & Touche applied the business rules for all stages of the performance metric computation including definitions, exclusions, calculations, and reporting structure, where appropriate. Deloitte & Touche developed code to compute the denominator, numerator, performance and standard deviations (where applicable). After processing the data Deloitte & Touche ran comparisons between replicated results and the results reported by Verizon for June 2003 in all states where Verizon has obtained authority to provide in-region interLATA services. A detailed listing of all differences is included Attachment A-5.	The auditor's replication resulted in only 31 differences compared to Verizon's results. About a third of these are due to differences between how the auditor and how Verizon rounded the data, not due to differences in how the underlying data were calculated. About a third are due to differences between how the auditor and Verizon interpreted the business rules for what should be counted. Only 10 of the 871 (1.1%) results for June are data reporting errors. This low error rate does not have a material effect on the ability to use the data to evaluate Verizon's performance.